Report of the
AUDITOR GENERAL
to the
Legislative Assembly

Prince Edward Island

February 1990

OFFICE OF THE AUDITOR GENERAL

PROVINCE OF PRINCE EDWARD ISLAND

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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my annual report to the 1990 Session of the Legislative Assembly.

Respectfully submitted,

J. Wayne Murphy, C.A.
Auditor General

Charlottetown
Prince Edward Island
February 6, 1990

TABLE OF CONTENTS

SECTION PAGE

INTRODUCTION AND OVERALL ASSESSMENT

MATTERS OF SPECIAL INTEREST

1. DEFICITS AND NET DEBT 1
2. ACCOUNTABILITY REPORTING 5
3. CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS 7
4. PROVINCIAL GOVERNMENT TRANSFER PAYMENTS 14
5. PROGRAM PERFORMANCE REVIEWS 20
6. PUBLIC ACCOUNTS COMMITTEE 21

REPORTS ON SPECIAL AUDITS AND EXAMINATIONS

7. INTRODUCTION 22
8. HIGHWAY CONSTRUCTION 23
9. LIQUID ASPHALT PURCHASES 30
10. POTATO DISEASE CONTROL 33
11. EXTENSION SERVICES - AGRICULTURE 37
12. LIMESTONE INCENTIVE PROGRAM 41
13. PROVINCIAL LIBRARY 44
14. HIGHWAY SAFETY DIVISION 48
15. COMMUNITY ECONOMIC DEVELOPMENT PROGRAM 51
16. SMALL BUSINESS ENHANCEMENT PROGRAM 53
17. SPECIAL COMMUNITY DEVELOPMENT PROGRAM 56
18. VITAL STATISTICS 59
19. TELEPHONE SYSTEM 61
20. WOMEN'S DIVISION 64

TABLE OF CONTENTS

SECTION PAGE

REPORTS ON FINANCIAL AUDITS

21. INTRODUCTION 65
22. PUBLIC ACCOUNTS 66
23. APPROPRIATIONS 70
24. PROPERTY TAX 71
25. PEI MUSEUM AND HERITAGE FOUNDATION 73
26. HOSPITAL AND HEALTH SERVICES COMMISSION 76
27. PEI LAND DEVELOPMENT CORPORATION 79
28. PEI GRAIN ELEVATORS CORPORATION 82
29. PEI CROP INSURANCE AGENCY 85
30. PEI LIQUOR CONTROL COMMISSION 87
31. CHARLOTTETOWN VETERINARY CLINIC 88
32. CIVIL SERVICE SUPERANNUATION FUND 89

IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

33. INTRODUCTION 91
34. RECOMMENDATIONS TO TREASURY BOARD 92
35. RECOMMENDATIONS FROM PREVIOUS REPORTS 94

36. **OFFICE OF THE AUDITOR GENERAL** 98

SCHEDULES

SCHEDULE A - ORDINARY EXPENDITURES

SCHEDULE B - CAPITAL EXPENDITURES

SCHEDULE C - LIST OF INCREASES TO APPROPRIATIONS

INTRODUCTION AND OVERALL ASSESSMENT

GENERAL

Under Section 16 of the Audit Act, I am required to report annually to the Legislative Assembly. This report fulfills this requirement, and provides the members of the Legislative Assembly with the summary results of the work performed during the year.

OVERALL ASSESSMENT

There are a number of significant issues raised in this report. If these issues are to be dealt with effectively they will require the support of government and the diligent efforts of senior officials. Both these elements were evident from the cooperation and feedback received in the course of our audits, and we are confident that most of these matters will receive the attention the members of the Legislature would expect.

BASIS OF REPORTING

This report is dated February 1990 which is the date it was completed. This date more accurately reflects the fact that the report deals with not only matters pertaining to the previous fiscal year, but also contains some matters relevant to the current year. This is a change from past practice where the report date was the end of the previous fiscal year.

Our emphasis is exception reporting and the report does not dwell on what is working well. This report is based on the observations and recommendations made to departments and agencies of government selected for audit during the year.

It is important to note that the audit process itself has limitations, and it is not practical to attempt to audit all areas of government each year. However, good coverage is obtained on a cyclical basis.

The existence of a constructive relationship between my office and those we audit, together with this independent report to the Legislative Assembly, provides a good combination to promote what this office is trying to achieve - accountability and improved management of public funds.

SCOPE AND ACKNOWLEDGMENTS

The audit program this year covered financial statement audits of the Public Accounts of the Province, eight Crown corporations, four agencies, and seven special purpose funds. Special audits and examinations were performed on several department programs and government-wide activities. In all our audits, we have received good cooperation from Ministers, Deputy Ministers, Heads of Crown corporations and other government officials. I wish to acknowledge this cooperation and also the assistance provided by the Legislative Audit Committee in the administration of my office. Finally, I would like to express appreciation to my staff for their continued hard work and support.

MATTERS OF SPECIAL INTEREST

1. DEFICITS AND NET DEBT

INTRODUCTION

1.1 The Legislative Assembly has expressed interest in this topic and this section provides information about the deficit, debt charges, and net debt shown in the Public Accounts. These amounts are indicators of the financial well being of the Province.

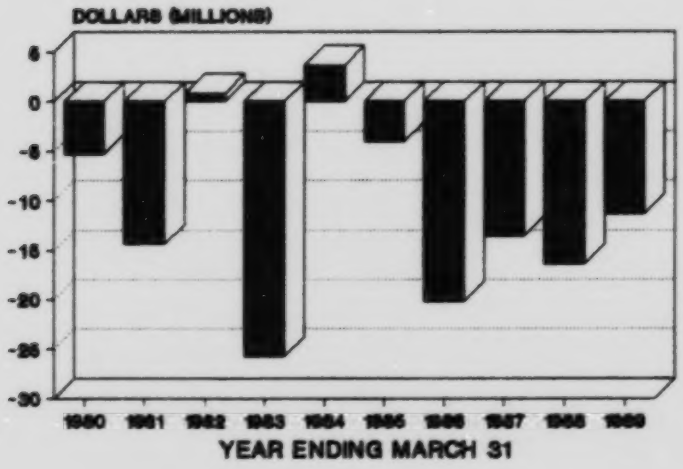
DEFICITS

1.2 Deficits are the excess of expenditures over revenues which, in business terms, represents a loss. They are amounts that have been spent in a given year which must be repaid from future years' revenues.

1.3 In fact, deficits must be financed with debt, so they cause further financial complications because in addition to repaying the amount borrowed, interest must be paid as well.

1.4 In 1988-89 the total deficit was $11.3 million. This represents a 31 percent decline from the $16.4 million total deficit in 1987-88. The trend in the total deficit for the past ten years is shown in EXHIBIT 1.1. The Province has budgeted a total surplus of $222,900 for 1989-90 which, if realized, will end five straight years of deficits totalling over $65 million.

EXHIBIT 1.1
TOTAL DEFICIT



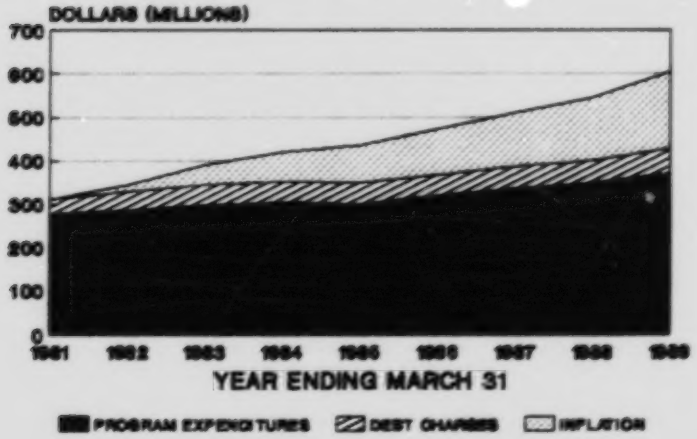
DEBT CHARGES

1.5 Debt charges represent interest payments to holders of the Province's debt, and principal payments to the Sinking Fund established to retire bond issues when they are due. The Province's debt charges for 1988-89 were $81 million. Without these debt charges, the Province would have had a surplus of $70 million.

1.6 Incurring deficits year after year results in increasing debt charges and the government being caught in a vicious circle. As one observer noted, *"until the debt is reduced it is almost impossible to eliminate the deficit, but until the deficit is eliminated, it is impossible to reduce the debt".*

1.7 EXHIBIT 1.2 indicates the growth in real program expenditures, debt charges, and inflation over an eight year period.

EXHIBIT 1.2
PROGRAM EXPENDITURES AND DEBT CHARGES
IN 1981 DOLLARS



1.8 Since 1981, total expenditures have increased by $293 million. After adjusting for inflation, real program expenditures have increased by $93 million and debt charges by $23 million. Or expressed another way, over this period debt charges have increased by 67 percent and real program expenditures have increased by 34 percent.

1.9 The Province may never be totally debt free but this illustrates the long term effect that deficit spending can have. It will take more than this year's budgeted surplus to reverse this effect. Indeed, it can be considered only a first step.

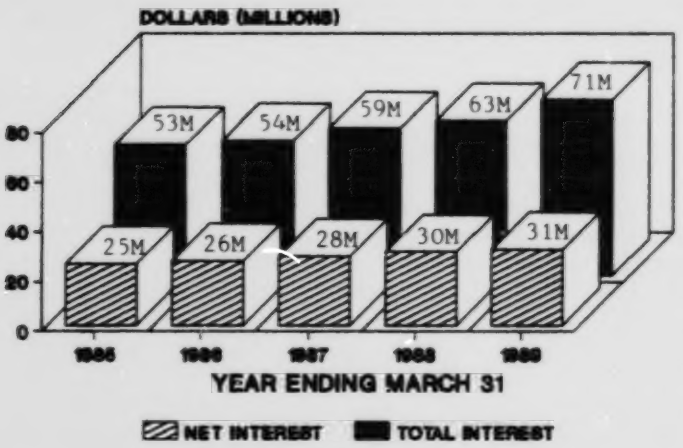
NET INTEREST

1.10 Some of the funds borrowed by the Province have been invested through Crown corporations and the Sinking Fund. Therefore, the interest revenue from Crown corporation loans to third parties and Sinking Fund investments could be considered as an offset to total interest costs.

1.11 When the total interest is reduced by this interest income the result is an amount which could be broadly termed interest on the net debt and is shown in EXHIBIT 1.3.

1.12 As the exhibit indicates our "net interest charges" are remaining relatively stable even though the total interest continues to escalate.

EXHIBIT 1.3
NET INTEREST CHARGES

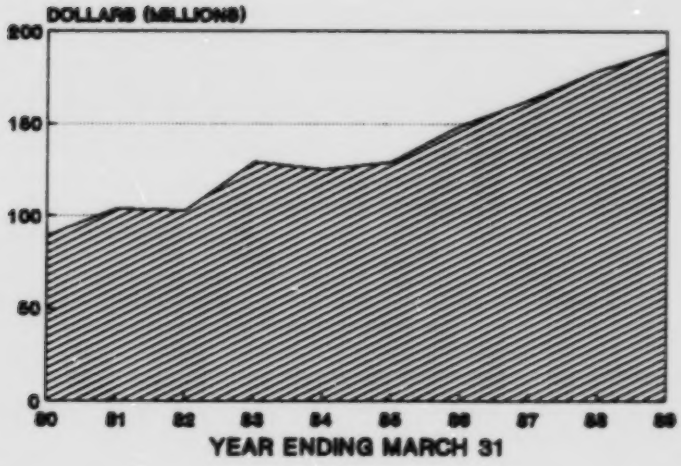


NET DEBT

1.13 The accumulation of all previous deficits less what we have been setting aside in the sinking fund to repay the deficits, is the **net debt**.

1.14 On March 31, 1989 the net debt of the Province for the Consolidated Fund was $191 million or approximately $1,500 for every person on P.E.I. The growth in the net debt for the last ten years is shown in EXHIBIT 1.4.

EXHIBIT 1.4
NET DEBT



1.15 Net debt is a useful indicator of the Province's financial health because it shows at a point in time how much we owe after taking into account how much we have. In more emphatic terms, it is the amount that must come out of our future taxes and will not be available for programs such as health and education.

CONCLUSION

1.16 If this year's budgeted surplus is realized, it would be a welcome boost to the Province's financial position. However, it does not mean our financial problems are over. Even though it would be a positive change after five consecutive years of deficits, it will only be a drop in the bucket compared to our existing net debt of $191 million.

1.17 The real challenge will be to sustain the surplus and improve upon it so that the existing annual debt charges of $81 million can be reduced or eliminated and the funds used for increased demands in health care and other essential programs.

2. ACCOUNTABILITY REPORTING

INTRODUCTION

2.1 Accountability, in its simplest terms, means the obligation to answer for a responsibility conferred. It is a term increasingly being used in both the public and private sectors. The concept gained prominence in the public sector in the last decade and will be the focus of even greater emphasis in the 1990s.

2.2 This onus of accountability permeates the whole of the public sector. Elected members of the Legislature are accountable to the taxpayer and the Legislature in turn holds the government accountable for its administration and use of financial resources.

2.3 With the parliamentary system the basic framework for accountability already exists. However, the growing diversity and scope of government activities is rendering increasingly complex the accountability relationships at the department and program level. This poses an even greater challenge for the members of the Legislative Assembly who need program performance information to make informed judgements on behalf of the taxpayer.

SOURCES OF INFORMATION

2.4 The key ingredient required by the Legislature for holding government accountable is sufficient, reliable information. Currently, the Legislature must rely to a large extent on the Budget Estimates, the Public Accounts, and annual reports for its accountability information. In addition, the report of the Auditor General is tabled annually and provides observations and recommendations resulting from audits performed during the year.

2.5 Traditionally, and still to a large degree, the Auditor General's report focuses on deficiencies in management practices and serves as a source of information on the economy, efficiency, and effectiveness of the programs reviewed. Although the Auditor General's report is an important link in the accountability process, it is not enough. The audit function serves the accountability relationship but it can never be a substitute for government reporting on its own stewardship.

2.6 The Legislature needs concise and objective information from government on all activities, and the accountability framework must provide for government reporting on its own performance. The audit function will then provide its greatest contribution by attesting to the fairness and accuracy of the information reported.

AGENDA FOR ACTION

2.7 In 1987, we made recommendations to improve the information provided in the Budget Estimates, Public Accounts, and departmental annual reports.

Some improvements have been made in both the Estimates and the Public Accounts and we are advised that guidelines for improvements in the departmental annual reports have been drafted. We are encouraged by the willingness of government to act and the cooperation of senior officials in improving these documents.

2.8 In this year's report, the sections immediately following on Control and Accountability of Crown Corporations and Provincial Government Transfer Payments further demonstrate the need for better accountability reporting.

2.9 We endeavour by reporting on these subjects, to raise the profile of the need for greater emphasis on reporting by management and government on their own performance. Compared to what is required, the accountability reporting process is at an elementary level and it would be naive to believe that the necessary transition will occur over night.

2.10 On the other hand, we have experienced a good response to the recommendations made to date, and a positive climate exists to promote the substantive changes required to improve the quality of information reported.

2.11 This is the route to go if true accountability is to exist for the expenditure of public funds.

3. CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS

BACKGROUND

3.1 Existing Crown corporations were created to fulfil particular needs in the public interest and have evolved to their current status in response to legislated or perceived government direction. These corporations are a significant element of government sponsored activities and play an important role in the fulfillment of public policy objectives. Therefore, a strong accountability relationship with government and the Legislature is required.

3.2 We contacted 18 Crown corporations and 2 private corporations with majority ownership by government and reviewed their accountability relationships. Because of the rights of minority shareholders, government's ability to direct and influence the two corporations in which it has less than 100 percent ownership is, to some extent, limited. However, government is held accountable for its investment in these corporations and an appropriate accountability relationship must exist for them as well.

3.3 The Financial Administration Act establishes the current requirements for accountability of Crown corporations. Since this legislation was passed in 1980, new corporations have been formed, others dissolved, and the activities of still others broadened. It is now timely to review the existing legislation, and the current relationship between government and these corporations, and their accountability to the Legislature.

3.4 In developing an accountability framework for Crown corporations, it must be recognized that they vary in many ways. Some are financially independent while others depend entirely on appropriations. In most cases the employees are civil servants, but in some they are not. Some have broad mandates while others were created for a specific purpose.

3.5 While Crown corporations are not completely at arms length with government, they are further removed from the direct political influences experienced by government departments. This benefits government because decisions and activities carried out by the corporations are perceived, at least to some extent, to be out of government's direct control and are subject to some private sector influence.

3.6 Our detailed report made recommendations on the points raised knowing full well that there are many subjective aspects to be considered. The recommendations were made from an accountability perspective keeping in mind the best interests of both the government as owner, and the Legislative Assembly as representatives of the taxpayer.

SCOPE AND METHODOLOGY

3.7 In accordance with Section 13 of the Audit Act we conducted an investigation to examine the means of control and the accountability arrangements currently in effect for Crown corporations.

3.8 We reviewed legislation, various reports and documents, and interviewed the chairman and chief executive officer of many corporations as well as several senior provincial government officials.

RESULTS IN BRIEF

3.9 Crown corporations have a major impact on the economy and employment with over $208 million in expenditures, $297 million in assets, and over 400 employees.

3.10 The sections of the Financial Administration Act governing Crown corporations need to be revised. The current Act does not address some important accountability matters, contains inconsistencies, and needs to clarify the assignment of Crown corporations.

3.11 The accountability information now provided to the Government and the Legislative Assembly on Crown corporations is insufficient.

3.12 The extent and means of government involvement and the role of the Minister responsible needs to be clarified.

3.13 The duties of members of boards of directors are not explicitly stated and board members are not adequately briefed on their roles and responsibilities.

3.14 The role of a chief executive officer needs to be more clearly defined.

3.15 Subsidiaries of Crown corporations are not sufficiently accountable to government and the Legislature.

3.16 The potential for overlaps and duplication of programs of Crown corporations and departments requires review.

PRINCIPAL FINDINGS

Classification of Crown Corporations

3.17 The current basis for the control and accountability of Crown corporations is provided in the Financial Administration Act. However, this Act is silent on some important matters and contains inconsistencies in both the classification of corporations and the application of certain sections of the Act. We noted that the schedules, under the Financial Administration Act, which list the Crown corporations are not up to date.

3.18 During our examination we noted differences in the application of central agency policies to Crown corporations. For example, of the corporations that do not require appropriations for operations, some provide a budget to Treasury Board and some do not. Two of the corporations we examined were specifically exempt from the Civil Service Act and therefore would not be subject to the same hiring practices followed by departments and other Crown corporations.

3.19 The accountability arrangements for Crown corporations must be clearly established in legislation. If different types of corporations are to be subject to different accountability requirements then criteria need to be developed to classify them.

Accountability Information Provided to Government and the Legislature

3.20 Information is an essential ingredient if appropriate accountability is to be established between Crown corporations, government, and the Legislature. There are three main sources of accountability information: strategic overviews; annual reports; and financial reports.

3.21 Government has a planning process in place which consists of the preparation and presentation of strategic overview documents. Standards for the content of these reports have been established.

3.22 We noted a number of problems with this process as it relates to the Crown corporations we examined. Eight of the twenty Crown corporations we examined had not been requested by government to prepare a strategic overview. These corporations represent $22 million of expenditures for which government has not reviewed corporate plans or strategic directions. Also, there was a great variation in the content of the strategic overview documents that we examined and some fell short of the content requirements. In addition, some Crown corporations did not receive formal acknowledgment and feedback on their strategic overview submission.

3.23 There is a lack of narrative information supporting the Budget Estimates for Crown corporations. In our view, tabling a summary corporate plan for each corporation would assist members of the Legislature in making informed decisions when approving appropriations for Crown corporations which total more than $127 million.

3.24 We examined the annual reports of a number of Crown corporations and found a great diversity in content. None of them close the accountability loop to the Legislature, by relating results back to budgets and objectives set by the corporation.

3.25 One set of financial statements in the Public Accounts consolidates the financial activities of some of the Crown corporations with those of government departments. Of the 14 corporations we examined, that were listed in

Schedules B and C to the Financial Administration Act, 4 were not consolidated. In a previous audit, we recommended that the basis for including or excluding Crown corporations from consolidation be documented and included as part of the Public Accounts. Discussions are continuing with the Department of Finance on this matter.

Role of the Minister Responsible

3.26 A Minister of government is assigned responsibility for each Crown corporation in the Province. It is generally agreed that the Minister responsible is the person to whom the board of directors is accountable. Important matters relating to the governing of a specific corporation such as funding, objectives, directors, and contacts with the government and Legislature flow directly or indirectly through the Minister responsible.

3.27 While the board of directors has the responsibility for the efficient and effective direction of the affairs of the corporation, the designated Minister and government are responsible for providing strategic direction by approving corporate objectives and plans.

3.28 In our examination of 20 organizations, we found a number of instances where the Minister responsible could be said to play a direct role in the operation of the corporation. This occurs in particular, where a Minister is chairman of the board of directors, for example, in the PEI Development Agency and the Housing Corporation. In one instance the legislation establishing the corporation requires the Minister to be chairman of the board of directors.

3.29 In our view, where a Minister representing government, is chairman of the board of directors the corporation becomes much like a department of government. Rather than being involved in overseeing the strategic direction of the corporation at the policy level, the Minister is involved directly in its operation. In our view, this defeats one of the main reasons for having a Crown corporation and places the Minister responsible in an awkward position.

Role of the Board of Directors

3.30 The existence of a board of directors is one of the key organizational characteristics of a Crown corporation. The board serves the government in a decision-making capacity and oversees operations. In addition the board provides for private sector input and perspective.

3.31 For provincial Crown corporations the duties of the board members are not always clearly defined. Most legislation refers in some way to the powers of the board but few discuss the duty of care required of board members and corporate officers. In addition to the need to clearly state the duty of care required of directors, there is a need for new directors to be thoroughly

briefed on their role and duties, as well as the operations of the specific corporation.

3.32 Not all enabling legislation for Crown corporations sets out reporting requirements to the government and the Legislature. It is generally understood that the board has a responsibility to report to government important business developments that affect the operation of the corporation, but this is not specifically required by provincial legislation. In some cases representatives of government sit on the board, for example deputy ministers of the related department, but their presence at board meetings does not absolve the board as a whole, or the chairman in particular, from informing government in a more formal manner.

Role of the Chief Executive Officer

3.33 In privately-owned corporations the chief executive officer (CEO) is appointed by the board of directors and is responsible to it. In most Crown corporations the CEO is appointed by Executive Council. Where the ultimate responsibility of the CEO lies, either with the Minister or the Board, is not clear.

3.34 It was apparent from our interviews that the role of the chief executive officer must be more clearly defined. Since they are appointed by government they feel responsible to the Minister but as a CEO they are responsible to the board of directors. If a conflict arises between the Minister and the board, the position of CEO becomes very difficult.

3.35 In 5 of the 20 Crown corporations we examined, the position of CEO and chairman of the board were combined. In these cases, if not the actual autonomy, at least the appearance of autonomy is reduced.

3.36 The PEI Development Agency is one of the largest Crown corporations yet it has a part-time CEO. The Agency was created with the combining of Industrial Enterprises Incorporated and Market Development Centre. The result of our review raises the concern that the purpose of amalgamating the two previous corporations into one entity may not be achieved without the presence of strong central management.

Subsidiary Crown Corporations

3.37 Parent Crown corporations are created by an Act of the Legislature while subsidiaries are usually incorporated under the Companies Act or acquired by a purchase of shares. In general, the acquisition or creation of a subsidiary does not require legislative approval.

3.38 The creation or acquisition of a subsidiary represents an investment of public funds and the subsidiary must, therefore, be held accountable to taxpayers through their elected representatives in the Legislature. The Financial Administration Act does not address accountability requirements for sub-

sidiaries. Although a subsidiary should be responsible to its parent corporation, it is also necessary for government to ensure that the objectives and activities of the corporation are in line with their philosophy. Not all subsidiaries provide a strategic overview or corporate plan for approval by government.

Programs and Services

3.39 During our review we noted instances where Crown corporations are offering services and programs similar to other Crown corporations and departments of government. In addition we observed that the same client group is being served by several Crown corporations and line departments.

Enhancing Accountability Through Audit

3.40 All Crown corporations listed in Schedules B and C of the Financial Administration Act are required to have a financial audit only. The board of directors of a Crown corporation is responsible through a Minister to government and ultimately the Legislature, to ensure that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively.

3.41 A special examination is more than a financial audit and includes some examination of economy, efficiency, and effectiveness of operations. It can give government confidence that systems and practices are in place which provide reasonable assurance that the responsibilities of the board are being adequately fulfilled.

RECOMMENDATIONS

3.42 Criteria for assigning Crown corporations to the schedules under the Financial Administration Act should be determined and consistently applied. The schedules to the Financial Administration Act should be updated on a regular basis and the Act should clearly indicate which sections apply to the corporations under each schedule.

3.43 Strategic overviews and corporate annual plans should be requested by government for all Crown corporations. A formal approval process by government should be implemented for annual corporate plans of Crown corporations, and a summary of each Crown corporation's annual plan should be tabled in the Legislature.

3.44 All Crown corporations' annual reports should set out the results accomplished and relate these to the goals and objectives established in the corporate plan of the previous period.

3.45 The appropriateness of a Minister holding the position of chairman of the board of a Crown corporation should be assessed.

3.46 The duty of care expected of board members and officers of Crown corporations should be clearly stated in the Financial Administration Act.

3.47 The Financial Administration Act should be revised to include a specific requirement that the Minister responsible and Executive Council be informed of any developments that could have a material effect on the public, the performance of the corporation, or financial position of the Province.

3.48 The role of the chief executive officer should be more clearly defined, in terms of responsibilities to the board of directors and the Minister.

3.49 The purchase, creation, or dissolution of a subsidiary corporation should require approval by Order-in-Council, and guidelines should be established to hold subsidiary corporations accountable, through the parent corporation, to the government and the Legislature.

3.50 Consideration should be given to including in the legislation a requirement that a special examination be conducted, on a cyclical basis, for each Crown corporation.

GOVERNMENT'S RESPONSE

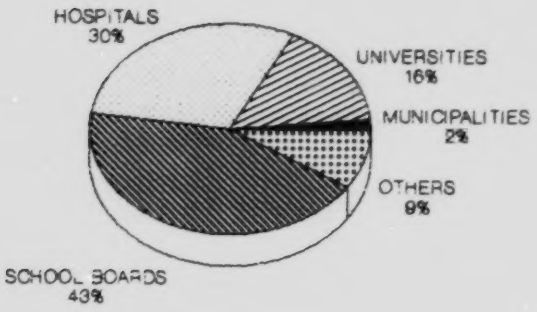
3.51 Initial feedback from senior officials has been positive. However, the report has just been issued and the government will require some time to consider the findings and recommendations and prepare a written response.

4. PROVINCIAL GOVERNMENT TRANSFER PAYMENTS

BACKGROUND

4.1 Expenditures for provincial government transfers are significant. For the fiscal year 1988-1989, transfers amounted to 35 percent of total current account expenditures or $214 million. As illustrated in EXHIBIT 4.1, transfers to school boards for operations and salaries make up nearly one half of the total provincial transfer payments. Approximately one third of all transfers go to hospitals. Payments to physicians of approximately $25 million were not included in this review.

EXHIBIT 4.1
TRANSFER PAYMENTS
1988-89 FISCAL YEAR



4.2 Governments deliver services to the public directly or delegate to other organizations the responsibility for providing services. For the purposes of this audit we have defined transfer payments as the transfer of funds from the provincial treasury to other non-government bodies, either elected or appointed, which provide services under provincial legislative authority.

4.3 In general, attention given to transfer payments has been focused on the processes used in allocating the funds with little attention given to holding the recipient accountable for the funds transferred. Government is accountable to the Legislative Assembly for the resources at its disposal and has a responsibility to taxpayers to ensure that public money, including that transferred to other organizations, is well spent.

AUDIT SCOPE AND METHODOLOGY

4.4 We performed an examination of transfer payments in accordance with Section 13 of the Audit Act. In order to assess the accountability structures in place over transfers, we examined transfers amounting to $180 million. These items included the four major categories of recipients: hospitals;

school units; universities and colleges; and municipalities. Our review did not include grants to individuals, or grants to organizations for strictly administrative purposes.

4.5 Each transfer was examined in respect to the following considerations:
- the means of administration, control, and direction of the recipient organization;
- the extent to which government departments and agencies assess the management systems and practices in place within the recipient organization;
- the information reported for accountability purposes to the government and Legislature; and
- the role of audit in the accountability relationship.

4.6 Our detailed report was issued in November 1989.

RESULTS IN BRIEF

4.7 It is the departments and agencies of government that have the responsibility for obtaining and analyzing information in order to hold recipients of transfer payments accountable for the funding they receive.

4.8 Treasury Board direction is required in establishing guidelines which can be adopted by the various departments, and used in fulfilling their responsibility to establish specific accountability frameworks for the transfer payments under their jurisdiction.

4.9 Given that transfer payments total more than $200 million, improvements are required in the information provided to the Legislature through the Budget Estimates, Public Accounts, and the annual reports of departments and agencies involved.

4.10 Accountability information includes more than financial statements and statistics, therefore, audit arrangements of recipients should extend beyond the financial statement audit at least on a periodic or cyclical basis.

PRINCIPAL FINDINGS

Role of Recipients

4.11 Recipients are responsible for receiving the funding authorized by government and providing the approved services in an efficient and economic manner. They must comply with information requirements established by the Legislature and the respective Departments.

Role of the Departments

4.12 The Legislature must rely on government to obtain and analyze the bulk of the information and to monitor the performance of recipients in order to hold them accountable for the dollars they receive. Government in turn delegates this responsibility to the various departments and agencies.

4.13 In most cases we found that financial information was obtained from the recipient organization so that the Department could see how the transfer payments were spent and assess the financial stability of the recipient.

4.14 However, financial statements alone do not provide sufficient information to assess what has happened as a result of money being spent. Performance information, such as the results in relation to objectives, and the quantity, quality, and cost of services provided is also necessary. This type of information was lacking in some respects for many of the transfer payments we examined.

Role of Treasury Board

4.15 Treasury Board is responsible under the Financial Administration Act for the financial management of government. During the annual budget process each department submits to Treasury Board detailed estimates of its financial requirements for the coming year. These estimates include amounts that will be transferred to other organizations to provide services on behalf of government. Treasury Board questions these estimates and each department is required to justify the amounts it has submitted. This scrutiny focuses on the financial budget requirements and is not designed to question operational effectiveness and accountability issues.

4.16 Standard policies or guidelines have not been formally established to guide departments in determining what information should be required of recipients. Instead, Treasury Board relies on each department to discharge its responsibility for safeguarding Provincial assets by obtaining sufficient financial and accountability information from recipient organizations.

4.17 In the absence of government policies, the donor departments have established a variety of reporting requirements ranging from only year-end financial statements in the case of municipal equalization grants, to monthly operating information and statistics for school units and hospitals.

4.18 Treasury Board cannot be expected to develop specific policies for each individual transfer, however, there are certain accountability elements that should be addressed for all transfer payments. These are:

- the establishment of specific objectives or results to be achieved by the recipient, quantified where appropriate;
- the agreement and acceptance of these objectives by the recipient;
- the timely reporting by the recipient to the department or agency of the extent of achievement of objectives; and
- where expected results and objectives are not being met, that corrective action be taken.

Role of the Legislature

4.19 The members of the Legislative Assembly have a responsibility to their constituents to hold government accountable for the resources made available. In order to discharge this responsibility, the Members require sufficient, appropriate, information to enable them to assess the cost effectiveness of programs delivered through transfer payments, and the suitability of the delivery structures chosen. Such an assessment requires that information be available on the cost, the quantity, and the quality of services provided through transfer payments. This information should be provided to the Legislature primarily in the Budget Estimates, the Public Accounts, and the annual reports of the departments or agencies responsible for the transfer.

4.20 The Estimates currently do not provide an adequate breakdown of transfer payments and do not include any narrative indicating government's objective in making these payments. For example, six major transfers totalling $186 million received six lines in the Estimates. On the other hand, one division in the Department of Agriculture has a budget of $8 million and is described using 74 separate lines in the Estimates.

4.21 In order to assess the cost effectiveness of a specific program or service, Legislators need not only the dollars involved, but also some indication of the objectives of the program and the extent to which these objectives were achieved. The annual reports of the departments and agencies responsible do not now include the following information in sufficient detail:

- the objective in providing the transfer payment;
- a reference to legislation which impacts on the transfer;
- a description of how the transfer relates to the department's or agency's goals;
- the major activities undertaken by the transfer recipient, the financial and other resources used, and the client groups and areas served;
- the effects of the transfer and the extent to which the goals were met; and
- any significant methods used to ensure economy, efficiency, and effectiveness, for example, comparison of costs to other jurisdictions, and quality assessments performed.

4.22 Over $50 million is transferred to hospitals for operating costs annually. The annual report of the Hospital and Health Services Commission for 1987-88 did not include a breakdown of these costs by major category of expenditures or by units such as per hospital or per patient day. Also, there was no indication in the report of the efforts the Commission has been making to assess the quality of services provided.

4.23 Over $3 million is transferred to private nursing homes each year. The information provided in the annual report for the Department of Health and Social Services in respect to these transfers was limited.

4.24 Actual expenditures incurred for some of the major transfer payments are not separately recorded in the Public Accounts. For example a total is reported for the amount transferred to the Maritime Province's Higher Education Commission and to the hospitals from Hospital and Health Services Commission. However, there is no breakdown of expenditures by educational institution or hospital.

4.25 We are not advocating that members of the Legislature be inundated with documents describing transfer payments. Much of the key summary information can be provided without creating an information overload. In fact, much of the information can now be found on a piece-meal basis in several documents already tabled in the Legislature. In our opinion, the Members of the Legislature will not have the essential information to allow for informed debate on over $200 million of government expenditures until improvements are made in the content and quality of the information presented.

Improving Accountability with Audit

4.26 Audit supports accountability and provides an important check in accountability relationships. All major transfer payment recipients are required to have an independent audit of their financial statements. However, accountability for transfer payments cannot be provided by financial statements alone. The audit arrangements should provide for a broad base audit that would encompass the extended reporting requirements for accountability.

4.27 One option for government is to require a value for money audit of the transfer payment recipient on a periodic or cyclical basis.

RECOMMENDATIONS

4.28 The donor departments should obtain sufficient information to determine how well the Province's objectives are being met by providing transfer payments to the various recipients. The information obtained should include at least the following:

- clearly stated objectives;
- an indication of the extent to which objectives have been achieved;
- some assessment of the quality of the services provided;
- the costs in total, and broken down by component, with comparative information on costs in other jurisdictions or past experience; and
- revenues and costs matched and accounted for so that the financial viability of recipients is clearly identified, and significant future costs or commitments are made clear.

4.29 Treasury Board should develop guidelines to assist departments and agencies in fulfilling their responsibility to establish suitable accountability requirements for transfer recipients.

4.30 Sufficient accountability information should be provided in the Budget Estimates, the Public Accounts, and departmental annual reports to allow members of the Legislature to make an assessment on whether economy, efficiency, and effectiveness are being achieved for transfer payments.

4.31 **Provisions should be made to allow for a periodic or cyclical value for money audit of the recipients of major transfers.**

GOVERNMENT'S RESPONSE

4.32 **Treasury Board is reviewing our report.**

5. PROGRAM PERFORMANCE REVIEWS

5.1 Last year we presented a basic framework and the main issues involved in implementing program evaluation. Treasury Board has advised that the subject is still under consideration.

5.2 It is obvious that resource allocation decisions are not becoming any easier with increasing demands for services and constrained resources. Everyone realizes there are limited alternatives for dealing with this problem. As reported last year, full scale program evaluations across government are not the solution. It would be impractical and too costly to embark on such an exercise that might never finish.

5.3 Instead it would make better sense to introduce cyclical reviews of selected programs in each department that address the following basic questions for each program:

. Does the program still make sense?
. What has happened as a result of the program?
. Has the program achieved what was expected?
. Are their better ways of achieving the results?

5.4 This kind of information could be the basis for allocating resources and making changes to improve program performance. We support any effort to develop a practical, cost-effective, and acceptable approach to program review that will suit the circumstances of our jurisdiction.

6. PUBLIC ACCOUNTS COMMITTEE

6.1 This Committee fulfils an important role in the accountability process. Its function is to provide a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable.

6.2 The Committee exists to deal with questions about the quality of the management and control of public funds. It fulfils this role on behalf of the members of the Legislature and their constituents.

6.3 These questions relate to administration, not to philosophy or policy. Therefore, the discussions should be non-partisan and focus on the administration of government programs.

6.4 The Public Accounts Committee in our Province, like most others, has evolved mainly from past practices and tradition and the duties of the Committee are not laid down by statute.

6.5 This year the Canadian Council of Public Accounts Committees published a document, "Guidelines for Public Accounts Committees in Canada". This document is comprehensive and provides guidelines on the role, responsibilities, rights, committee membership, and resources for public accounts committees.

6.6 Although each jurisdiction is different, the guidelines are flexible and can be adapted to most provinces. Because of the practical limitations our Committee faces in fulfilling its role, a review of this document could serve as a useful basis for assessing the most productive approach to its proceedings.

REPORTS ON SPECIAL AUDITS AND EXAMINATIONS

7. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

7.1 Section 13(2) of the Audit Act establishes my mandate for special audits and examinations of departments and agencies of the Crown.

7.2 To perform these audits, we employ a broadly based auditing approach aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems, and controls employed by management in fulfilling its responsibilities. The purpose of the audits is to examine each entity or program, report our findings, and make recommendations where appropriate.

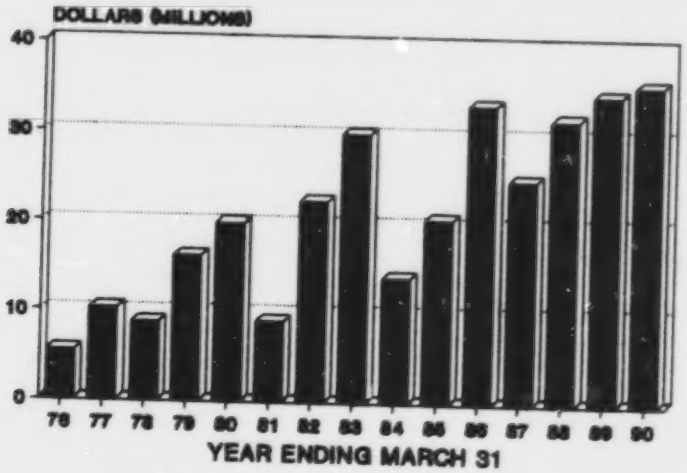
7.3 Section 16 of the Audit Act requires me to call attention to any matters I consider necessary to be brought to the attention of the Legislative Assembly. Accordingly, I submit the results of my audits completed this year in the sections following this introduction.

8. HIGHWAY CONSTRUCTION

BACKGROUND

8.1 Highway Construction is a division of the Department of Transportation and Public Works. Capital expenditures for the year ended March 31, 1989 were $34 million. As can be seen in EXHIBIT 8.1 expenditures have increased significantly in the last 15 years.

EXHIBIT 8.1
CAPITAL EXPENDITURES - HIGHWAYS



8.2 This Division is responsible for the construction of paved highways, roads, and bridges. The provincial highway network is critical to the economic success of the Province because it is the primary means of transporting goods and people.

AUDIT SCOPE

8.3 In accordance with Section 13 of the Audit Act, an audit was performed to assess the controls and management practices in place to plan and construct quality highways with due regard for economy. Our report to the Department was issued in December 1989.

RESULTS IN BRIEF

8.4 Although sectors of the primary highway system are improving, the condition of the overall highway system is deteriorating.

8.5 The role of individual members of the Legislative Assembly in the planning process for highway construction needs to be reassessed.

8.6 Information based on objective assessments and analysis is needed as input for resource allocation decisions.

8.7 The collection of data required to plan highway construction is not scheduled, and information is not routinely updated when highways are reconstructed.

8.8 Some contract specifications are not met when highways are constructed.

8.9 Some on-site field inspections are not adequately performed.

8.10 The Department tendering policy needs to be clarified and documented.

8.11 Materials tickets which substantiate materials used on projects are often inaccurate and are not controlled.

8.12 Department financial records required for monitoring project costs are inaccurate.

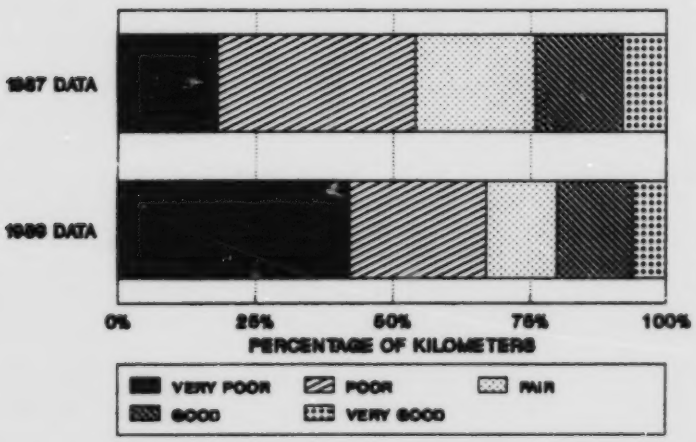
8.13 Payment holdbacks which should be used for project control are often paid before they are required.

PRINCIPAL FINDINGS

Deteriorating Highway System

8.14 Prince Edward Island has in excess of 3,500 kilometers of paved road. EXHIBIT 8.2 was prepared based on information received from the Department. It shows that the quality of the Province's overall highway network is declining. One reason for the decline is that rehabilitation efforts have not been sufficient. Emphasis has been placed on improving the primary network which carries most of the traffic.

EXHIBIT 8.2
PAVEMENT QUALITY ANALYSIS
PERCENTAGE OF KILOMETERS IN EACH RANGE



8.15 In 1984 we stated that the rehabilitation program was inadequate. At that time there were 3,000 kilometers with an average life of 15 years which indicated that 200 kilometers per year should be rehabilitated. Since that time the Department has rehabilitated about 100 kilometers per year.

8.16 We have estimated that in order to bring all roads to above 5 on a scale of 1 to 10 would cost as much as $300 million. This is based on the 1988 cost per kilometer and does not include the annual cost to maintain them at this level.

8.17 The Department acknowledges that the rehabilitation effort needs to be increased in the order of 150 percent if the network is to be maintained.

Strategic Planning

8.18 Decisions on the affordability of maintaining the current highway system and the strategies required to meet the transportation and economic needs of the province must be based on sound planning and reliable information.

8.19 The Department's strategic planning process results in the preparation of a strategic overview for Executive Council. This overview identifies the issues which Department staff consider should be addressed.

8.20 The strategic overview does not provide sufficient information on the current condition of the highway system or the cost of maintaining the current system, using various maintenance strategies.

8.21 This information is important so Executive Council can make resource allocation decisions on the most cost-effective approach to keep 3500 km of paved road in a reasonable state of repair.

Recommendation

8.22 Executive Council should be provided with more information to make the cost-benefit decisions necessary to preserve the Provincial highway system at an appropriate level. This could include current condition of the highway system, alternatives for improving the system, and the cost of each.

Pavement Management System

8.23 We were advised that most district MLAs provide input to the annual highway construction plan. While this process recognizes that MLAs are knowledgeable about the highways in each of their districts, it fails to consider the paving requirements from a provincial perspective.

8.24 Department staff are currently developing a Pavement Management System (PMS) which will prioritize reconstruction on a provincial basis. To date, the system has cost over $1 million and has taken over ten years to develop. With this amount of investment and the current state of the highway system, the need to complete the final phase of this system is critical.

8.25 The PMS is expected to provide a list of roads which should be reconstructed or repaired to best use the Province's scarce financial resources. It is anticipated that members of the Legislative Assembly will still provide input.

However, it is expected the information provided by the PMS will be used to address the rehabilitation needs of the highway network on a provincial basis with minimal reference to district boundaries.

8.26 It is essential that data be complete, accurate, and up to date for the Pavement Management System to be useful. Data collection, from tests conducted on the highway for input to the PMS, is not scheduled on an annual basis. As a result, it is difficult to determine the number of kilometers for which data was collected each year or when the data was collected. In addition the system is not routinely updated for major changes such as highway reconstruction.

Recommendations

8.27 The Pavement Management System output should be the primary source of information for determining highway construction and maintenance priorities.

8.28 The final phase of the Pavement Management System, which will prioritize reconstruction on a provincial basis, should be implemented as soon as possible.

8.29 Data collection for the Pavement Management System should be scheduled, include all roads, and be done in a planned and timely manner.

Quality Control

8.30 Quality control for highway construction involves the inspection of a contractor's work to ensure the specifications for a project are met. Our audit was limited to determining compliance by the contractor with the specifications established by the Department. We did not attempt to evaluate the appropriateness of the specifications used.

8.31 We found a number of instances where contractors failed to meet the Department's specifications yet the work was paid for. For example, many construction joints did not meet requirements; liquid asphalt tests frequently did not meet specifications; many roads were not adequately compacted; and some roads failed tests performed on asphalt quality.

8.32 The Department has indicated that the most economical way to extend the life of our roads would be to ensure specifications are met when the highway is constructed.

8.33 The quality of highways could be improved if better inspections were performed. This is supported by a 1987 consultant's report which stated, "savings can be effected in the capital costs of highway construction in the long term, through increased highway life, if more vigilant inspection procedures are followed. The magnitude of savings are estimated to be in the $1 million - $2 million range annually."

8.34 Some efforts are being made to improve inspections such as hiring permanent asphalt inspectors. However, the practice of hiring field staff with

few qualifications, and assigning them to road projects with no training, is causing a serious weakness in the inspection process.

8.35 We were advised that copies of the specifications are not routinely provided to the field staff, even though they may be the only Department staff on the job when crucial portions of the work are performed.

8.36 The hiring process for field staff needs to be reassessed. Currently, they are not hired through competition and the Department engineering staff are not directly involved in the hiring process even though they are most knowledgeable of the technical requirements of the position.

Recommendations

8.37 Department engineers should ensure that highway construction contract specifications are met before final payments are made.

8.38 The hiring, training, and supervision of field staff should be improved to ensure adequate inspections are performed and non-compliance with specifications is reported.

Tendered and Negotiated Contracts

8.39 The Department has an unwritten policy to tender contracts with a value over $75,000 and award contracts less than $75,000 to selected contractors. In 1988-89 there were 73 tendered contracts totalling $12.8 million and 137 non-tendered contracts totalling $3.4 million.

8.40 We noted highway projects where total work valued at $1.1 million was divided into 29 contracts, which individually did not exceed $75,000, and were therefore not tendered.

8.41 For 1988-89, we noted that on average the negotiated prices for the non-tendered contracts were the same as the prices for tendered contracts of a similar size.

Recommendation

8.42 The Department should develop and document a formal policy setting out rules and procedures to govern the awarding of highway construction contracts.

Materials Control

8.43 Materials tickets are used in the calculation of progress payments to contractors. The Department processed 60,000 material tickets valued at $14 million during 1988-89. During our audit we found many tickets which were not authorized, had weights changed, were charged to incorrect projects, had materials type changed, used different standards of measure, had no load and unload times indicated, and did not have haul distances recorded.

8.44 In general, there was no control over material tickets issued, used, or outstanding. While the tickets are numerically sequenced, the number of tickets issued was not recorded.

8.45 Field staff are supposed to complete daily quantity reports each day materials are used on a project. Many of the reports were either missing or incorrect and material totals could only be verified against the daily reports 60 percent of the time.

8.46 Batch totals were not used to control data entered in the system. Department staff indicated that in the past data entry errors contributed to delays in processing payments.

8.47 It is essential that materials tickets are accurate and properly authorized because they are the primary support documentation for payments relating to the acquisition, transportation, and placement of the materials.

Recommendation

8.48 Department staff should ensure that all materials tickets are accurately completed, authorized, and controlled. Final materials totals should be verified before final payments are made to contractors.

Contract Changes

8.49 We noted several instances where change orders were not prepared or approved in accordance with departmental procedures.

8.50 We also noted several contract additions that did not have documented approval prior to commencement of the additional work as required in the department contract specification.

Recommendation

8.51 The Department should ensure that contract overruns and changes are documented and approved in compliance with department procedures.

Project Costing

8.52 Direct labour costs for grade inspectors, weighers, and checkers are charged to one project even when they have worked on a number of projects during the period.

8.53 Travel costs are inconsistently allocated between construction projects. We also found a number of other costs which were incorrectly charged to travel accounts.

8.54 In the financial information system, which is used for controlling project costs, items were recorded in the wrong project and items within projects where charged to the wrong account.

8.55 While individually these items may not be important , in total they do reflect on the accuracy of project costs reported to management.

Recommendation

8.56 The Department should ensure that financial reports are prepared accurately and are properly reviewed.

Holdbacks

8.57 Contracts require that 15 percent of the contract price be retained until 60 days after receipt of the signed certificate of completion from the contractor.

8.58 We found $1.2 million in holdbacks which were processed before this requirement was met. This defeats the purposes of the holdbacks, which are to satisfy the requirements of the Mechanics Lien Act and to ensure deficient work is corrected. It also represents an uneconomical use of Provincial resources because payments are made prematurely resulting in increased interest costs.

Recommendation

8.59 The Department guidelines for the payment of holdbacks should be followed.

Work Schedules

8.60 Work schedules are to be submitted for each publicly tendered contract to ensure contracts are completed before the end of the construction season. They are also useful for scheduling department staff.

8.61 Sixteen projects were completed after the scheduled dates. Contractors are to be charged $500 for each day they are behind the scheduled completion date. For the 1988-89 fiscal year late charges of $30,400 have been calculated but at the time of our audit only $8,900 had been charged to contractors.

Recommendation

8.62 The system for scheduling work and charging contractors for delays should be reviewed.

DEPARTMENTAL RESPONSE

8.63 We discussed our report with departmental staff, who agree with our findings and recommendations. However, the report was recently issued and a written reply on their intended course of action has not been received.

9. LIQUID ASPHALT PURCHASES

BACKGROUND

9.1 The Department of Transportation and Public Works purchases liquid asphalt which is shipped directly to paving contractors. The contractors are billed for any liquid asphalt they receive which is not used on government projects.

9.2 In 1981 the Province entered into a multi-year agreement with a supplier for 125,000 tonnes of liquid asphalt over the life of the contract. These purchases will have a total cost of about $30 million by the time the Province's purchase commitment is met. At the end of the 1988-89 fiscal year, approximately 98,000 tonnes had been purchased, leaving a remaining purchase commitment of 27,000 tonnes.

AUDIT SCOPE

9.3 We performed an audit of liquid asphalt transactions in accordance with Section 13 of the Audit Act. Our audit objectives were to determine whether liquid asphalt was purchased with due regard for economy, and to assess the adequacy of controls over purchases.

9.4 Our audit included examining purchases and disbursements in 1988-89 and also purchases made during the six preceding fiscal years.

9.5 The final report was issued to the Department in December 1989.

RESULTS IN BRIEF

9.6 The Department does not verify all costs, using the price formulas in the contract, to ensure that liquid asphalt purchases are made at the lowest possible price.

9.7 The Department agreed to pay increased finance costs as a result of cost overruns on the construction, in 1982, of the supplier's Georgetown facility even though it was not required by the agreement. This resulted in the Province paying $146,000 more than was provided in the original agreement.

9.8 Purchases of approximately 3300 tonnes from outside suppliers were not deducted from the purchase commitment under the main agreement.

PRINCIPAL FINDINGS

Cost Verification

9.9 The agreement with the supplier provides for the Department's liquid asphalt costs to be based on a number of factors. These include liquid asphalt costs to the Provinces of Nova Scotia and New Brunswick; and liquid asphalt costs to the Province of Quebec plus marine freight costs, a capital financing charge related to a liquid asphalt facility in Georgetown, and the facility's operating costs.

9.10 The Department is authorized to verify all cost factors, but this was not always done. As a result, the Department has not ensured that the lowest possible price was paid for liquid asphalt purchased under the agreement with the supplier.

Overpayments

9.11 Over the first four years of the multi-year agreement, the Department paid for liquid asphalt based on costs that included cost overruns of $1 million on the construction of the Georgetown facility. The pricing formula included in the agreement provided a fixed amount for financing charges. The additional amount paid was $146,000.

Purchases from Another Supplier

9.12 Department staff advised us that liquid asphalt purchases of at least 3300 tonnes resulted from the main supplier's inability to meet Department requirements.

9.13 The multi-year agreement provides that any quantity of liquid asphalt purchased from another supplier, due to the main supplier's inability to meet requirements, is to be credited against the Department's 125,000 tonne purchase commitment. To date, no amount has been credited.

9.14 It is important that these quantities be credited because the price of liquid asphalt purchased under the agreement has been higher.

RECOMMENDATIONS

9.15 The Department should verify on an annual basis that the lowest possible price is paid for liquid asphalt purchased under the multi-year agreement.

9.16 **The Department should ensure that applicable purchases from other suppliers are credited to the remaining purchase commitment with the main supplier.**

DEPARTMENTAL RESPONSE

9.17 **Our report was discussed with department staff who agreed with our findings and recommendations.**

10. POTATO DISEASE CONTROL

BACKGROUND

10.1 The potato industry contributes significantly to the Province's economy. Department of Finance statistics indicate that potato cash receipts for the first three quarters of 1989 totalled $92 million, or 50 percent of total farm cash receipts.

10.2 The potato industry and the provincial and federal governments have joined forces to control and eventually eradicate potato disease.

10.3 A special committee reported to the PEI Minister of Agriculture in 1985 that the future of the potato industry was threatened by the existence of bacterial ring rot. The committee also reported that the Plant Disease Eradication Act, the Potato Disinfection Program, the Potato Cull Burial Assistance Program and the Potato Seed Incentive Program have all played an important role in the effort to eradicate bacterial ring rot.

10.4 Province of PEI potato disease control expenditures in 1988-89 totalled $850,000.

AUDIT SCOPE AND METHODOLOGY

10.5 We conducted an audit of potato disease control in accordance with Section 13 of the Audit Act. The objective of our audit was to review potato disease control legislation and activities, and to assess management practices.

10.6 Our audit procedures included interviewing staff of the PEI Department of Agriculture, the PEI Potato Marketing Commission, and Agriculture Canada. We also examined documentation on inspection results and potato disease control payments.

10.7 Our audit report was issued to the Department in June 1989.

RESULTS IN BRIEF

10.8 There are breakdowns in management control due to inadequate lines of accountability between the PEI Department of Agriculture and other parties relied upon for performance of specific tasks related to potato disease control.

10.9 Legislation pertaining to registration of potato growers and the planting of certified seed is not adequately enforced.

10.10 A number of weaknesses exist in the procedures for inspection.

10.11 Parties violating the Plant Disease Eradication Act and Regulations are not charged with offenses, even though penalties are clearly set forth in the legislation.

10.12 Bonuses were paid under the Seed Incentive Program to growers who did not improve the quality of their seed.

PRINCIPAL FINDINGS

Accountability

10.13 The PEI Department of Agriculture has the overall responsibility for administering the Plant Disease Eradication Act, however, other parties are also involved in carrying out its provisions.

10.14 The PEI Potato Marketing Commission is the designated agent to administer applicable provisions of the Plant Disease Eradication Act in cooperation with the PEI Department of Agriculture.

10.15 Agriculture Canada inspectors are relied upon for the inspection of all crops for which growers have made seed certification application, and which meet Agriculture Canada requirements for inspection.

10.16 PEI Department of Transportation and Public Works highway scales officials are relied upon to inspect vehicles transporting potatoes for certificates of vehicle disinfection and to void the certificates to prevent reuse.

10.17 Except for a memorandum from the Department of Transportation and Public Works there are no formal arrangements between the PEI Department of Agriculture and the other parties indicating each party's responsibilities and duties. As a result, there are inadequate accountability arrangements to ensure that legislated potato disease control requirements are met.

Grower Registration

10.18 Under the Regulations to the Plant Disease Eradication Act growers are required to register with the Potato Marketing Commission and apply to Agriculture Canada for seed certification.

10.19 The majority of growers apply to Agriculture Canada for certification without registering with the Commission. As a result, the Commission does not know who is growing potatoes until the end of the growing season, and therefore cannot meet its responsibility to ensure compliance with legislation governing potato crop inspections.

10.20 There are other cases when growers do not register with either Agriculture Canada or the Commission, and they must be identified to ensure their crops are tested for potato disease. There were 31 of these cases found in 1987.

Inspections

10.21 The PEI Potato Marketing Commission's Coordinator of Plant Disease Eradication serves a "Notification of the Presence of Bacterial Ring Rot" on any party confirmed as being in possession of contaminated potatoes and also inspects those fields known to have been previously contaminated with the disease.

10.22 A problem exists however with the Coordinator of Plant Disease Eradication also carrying out the activities of an inspector. The Plant Disease Eradication Act authorizes the appointment of only employees of the provincial and federal governments as inspectors. There is no authority to appoint an employee of the PEI Potato Marketing Commission as an inspector under the Act.

10.23 In its capacity as agent, the PEI Potato Marketing Commission is responsible for ensuring that all inspections required by legislation are carried out. At the end of each crop year, the Commission receives lists from Agriculture Canada and the PEI Department of Agriculture of all crops that were inspected by each party. Both of these parties carry out their inspections without direction from the Commission. The Commission does not monitor inspections during the year to verify that all crops get inspected.

10.24 There was a combined total of 238 cases in 1987 and 1988 where vehicle operators failed to comply with the legislated requirement to show proof of vehicle disinfection to highway scales officials. Many of these cases involved repeat violators and one particular trucking company accounted for one-third of these cases.

10.25 Another weakness in control is that there are periods of time when the Borden scalehouse is not operated. This allows truckers wishing to avoid inspection to schedule their trips so that they exit the Province when highway scales officials are not working.

Enforcement

10.26 Legislation provides for any violators to be liable to a fine ranging from $200 to $25,000, and in default of payment thereof, imprisonment from 30 days to 6 months.

10.27 Staff of the PEI Department of Agriculture and the PEI Potato Marketing Commission have told us that charges were not laid regarding any of the violations we have reported on. In our opinion the effectiveness of the Plant Disease Eradication Act and Regulations in controlling and eradicating potato disease has been compromised because of failure to adequately enforce the legislation.

Potato Seed Incentive Program

10.28 Legal counsel has advised us that there is an inconsistency between Sections 14 and 18(l) of the Plant Disease Eradication Act and Section 7(1) of the Regulations. The Act provides for a bonus only when a grower improves the quality of seed. The Regulations do not require an improvement in or maintenance of the quality of seed.

10.29 Only six out of twenty-one growers who received bonuses improved the quality of their seed. The remaining growers received bonuses for acreages where there was no improvement in the quality of seed. In some cases there was actually a decline in the quality of seed.

RECOMMENDATIONS

10.30 The Minister of Agriculture should enter into formal arrangements with other parties whose cooperation is required to effectively administer and enforce the Plant Disease Eradication Act.

10.31 The PEI Potato Marketing Commission should ensure that legislation governing potato grower registration and crop planting requirements is enforced.

10.32 Potato disease control inspections should be performed only by those persons duly appointed under the legislation.

10.33 The PEI Potato Marketing Commission should monitor all crop inspections to ensure that legislated inspection requirements are met.

10.34 The PEI Department of Agriculture should review the hours of operation for the Borden scalehouse and take whatever action is necessary to ensure that vehicles transporting potatoes are disinfected.

10.35 The PEI Potato Marketing Commission should ensure that contraventions of the Plant Disease Eradication Act are dealt with according to the legislation.

10.36 All payments under the Potato Seed Incentive Program should comply with legislated eligibility criteria.

DEPARTMENTAL RESPONSE

10.37 The Department agrees with the recommendations contained in our report. A number of changes to potato disease control legislation have been drafted to deal with the shortcomings in the existing legislation.

11. EXTENSION SERVICES - AGRICULTURE

BACKGROUND

11.1 Extension Services of the Department of Agriculture assists farm families by providing information, courses, advice, and other services. The annual cost of extension services carried out at the five district offices is approximately $900,000.

AUDIT SCOPE AND METHODOLOGY

11.2 In accordance with Section 13 of the Audit Act, an audit was performed to assess management practices in place to administer and provide extension services. In addition we followed up on recommendations pertaining to Extension Services contained in our 1984 Comprehensive Audit Report on the Department of Agriculture.

11.3 For the purpose of our audit we limited our examination to extension services provided by the Department of Agriculture's five district offices. This examination consisted primarily of interviews with regional staff and departmental management.

11.4 Our report was issued to the Department of Agriculture in June 1989.

RESULTS IN BRIEF

11.5 The role of district offices in providing extension services is unclear.

11.6 Better coordination of efforts between staff in the district offices, departmental staff in the Small Farms Program, and farm specialists is required.

11.7 Information on new programs initiated by other divisions of the Department has not been effectively communicated to district office staff.

11.8 Microcomputers located at each district office are underutilized due to lack of software and staff training.

11.9 Duplication of effort exists in developing applications for microcomputers, and information stored on computer disks is not adequately protected from unauthorized use.

11.10 The involvement of staff in the preparation of information for lending institutions needs to be clarified.

11.11 Sufficient control does not exist to provide accountability over the activities of district office staff.

PRINCIPAL FINDINGS

Role

11.12 Senior departmental management feel the district office's role is to assist farmers with departmental programs and refer farmers to the relevant associations, departments, or agencies for other matters.

11.13 District office management have stated however they seldom refer farmers to producer groups, other departments, or the federal government. They assist farmers directly on such matters as gas tax rebates, grain assistance programs, and bank loan applications.

11.14 Because of the lack of management information, senior management have difficulty assessing the contribution the existing activities of the district offices are making to the farm community.

Coordination of Extension Services

11.15 Within the Department of Agriculture there are three sections that have regular contact with the farm community: district office extension staff; specialists in the Production Services Branch; and agriculture resource workers in the Sustainable Agriculture Section.

11.16 Farm specialists are responsible for all farmers across the Island within their field of expertise, such as dairy, beef, and crops.

11.17 The relationship and degree of communication between specialists and district office staff varies between regions. In some regions specialists inform district offices of all contact with farmers. In other district offices this is not always the case.

11.18 At present, the coordination of specialist activities through district offices is informal, and no policies or directives providing guidance have been issued by management.

Small Farms Program

11.19 The Small Farms Program was established in 1982 to assist the small or part-time farmer. The original intention was for staff to introduce clients to the district office system and move on to new clients. This has not occurred resulting in a duplication of effort by district offices and staff of the Small Farms Program.

11.20 A consultant's report issued in April 1988 recommended an integration of the Small Farms Program into the district office system. Management indicated that such action has taken place in 1989-90.

Communications with Management

11.21 District office staff stated that the information flow on major programs approved by the Department has improved significantly during the last few years.

11.22 There still exists the problem, however, of projects being announced by other divisions of the Department before the district offices are adequately informed of details of these programs.

Microcomputers

11.23 Each district office is equipped with one desktop and one laptop microcomputer. The laptops were purchased through the Atlantic Livestock Feed Initiative Program for nutritional analysis of feeding rations. Software necessary to provide this service has not been purchased resulting in underutilization.

11.24 Development of microcomputer applications has been left to the district offices. This has led to a duplication of efforts as several applications exist for programs common to all offices.

11.25 One of the main uses of the microcomputers is to generate financial information for farmers. We noted, however, that in some district offices there is inadequate security to prevent unauthorized use of this information.

Loan Applications

11.26 Lending institutions rely on financial information prepared by staff. Staff involvement varies, from accompanying farmers to lending institutions and explaining financial information, to merely recording information provided.

11.27 The accuracy of information is the farmer's responsibility. However there may be an implication that staff have verified the accuracy of financial data. At present, no formal standard disclaimer is attached to the information, which could expose the Department to potential litigation should a lending institution act on erroneous information.

Management of Staff Activities

11.28 The major cost for extension services is staff time. Salaries represent 90 percent of the district offices' budget. However, an effective time reporting system to properly manage employee activities is lacking.

11.29 Our 1984 comprehensive audit on the Department of Agriculture identified the need for a time reporting system. A 1986 consultant's report carried out as part of the Department's ERDA evaluation stated, "The extension service does not systematically collect the information it requires to manage itself effectively".

11.30 A directive from the Deputy Minister of Agriculture in 1988 brought renewed efforts to implement a time accounting system. However, we observed a lack of uniformity between district offices in the content and frequency of reports.

RECOMMENDATIONS

11.31 The role of district office staff should be clearly defined and communicated. Feedback should be obtained from the farming community in determining the role of the district offices.

11.32 To adequately coordinate the services provided to the farming community, there should be better communication between farm specialists and district office staff.

11.33 Procedures need to be improved to fully inform district office staff of projects or programs before they are announced publicly.

11.34 Senior management, in consultation with the Department's computer coordinator, should develop a plan to ensure the effective development of computer applications, and utilization of the district offices' microcomputers.

11.35 All client information stored on computer files should be protected by a password unique to each computer user.

11.36 To avoid any misunderstanding on the degree of involvement of district office staff with information prepared for farmers, a standard disclaimer should be attached to all financial information prepared by district office staff.

11.37 The Department should seek legal advice from the Department of Justice to determine if the Province is being exposed to potential litigation by preparing and participating in the presentation of loan application information.

11.38 District offices should implement a uniform time reporting system to enhance comparability and enable management to evaluate the performance of the district offices and staff.

DEPARTMENTAL RESPONSE

11.39 The Department agreed with our report and have provided us with a detailed written response on action already taken and further intended action to deal with the issues raised.

12. LIMESTONE INCENTIVE PROGRAM

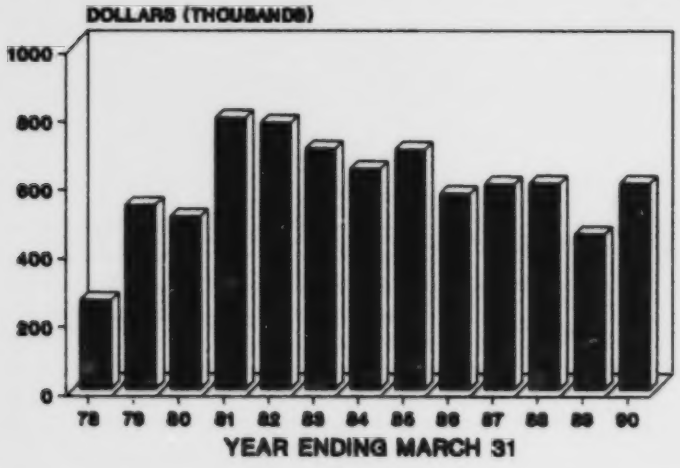
BACKGROUND

12.1 The Limestone Incentive Program is administered by the Department of Agriculture. Its objective is to encourage the use of limestone to increase the productivity of agricultural land.

12.2 Financial assistance at the rate of $11 per metric tonne of limestone is paid to applicants meeting the program criteria. In the past year $452,000 was paid to 990 applicants.

12.3 Annual Limestone Incentive Program expenditures have fluctuated somewhat since the assistance was reintroduced in 1978. EXHIBIT 12.1 shows program expenditures by fiscal year from 1978 to 1989. The budgeted expenditures for 1990 are also included.

EXHIBIT 12.1



AUDIT SCOPE AND METHODOLOGY

12.4 We conducted an audit of the Limestone Incentive Program in accordance with Section 13 of the Audit Act. Our audit objective was to assess management practices pertaining to program delivery and compliance with program criteria.

12.5 Our audit work consisted primarily of examining a sample of program payments and interviewing departmental staff. Our audit report was issued to the Department in October 1989.

RESULTS IN BRIEF

12.6 The Department of Agriculture has not evaluated the effectiveness of the Limestone Incentive Program.

12.7 Some payments were made without adequate supporting documentation.

12.8 Applicants are not required to certify claims for assistance.

12.9 Program eligibility criteria regarding the maximum level of assistance available to partnerships and incorporated farms are too broad.

PRINCIPAL FINDINGS

Program Evaluation

12.10 We commented in a December 1984 Comprehensive Audit Report on the Department of Agriculture that there was no evaluation of the Limestone Incentive Program to determine its effectiveness in providing benefits to the agriculture industry. At that time, we recommended that such an evaluation be carried out. To date, a methodology for assessing the program's effectiveness has not been developed.

Proof of Purchase

12.11 The Department accepts photocopies of limestone suppliers' invoices or customer statements as documentation that the quantities of limestone for which financial assistance is sought were actually purchased. This practice is not conducive to proper internal control over payments.

12.12 In our audit sample we found payments made to applicants who did not provide any documentation as proof of limestone purchases. In these cases there was no assurance that the amount of limestone, for which assistance was paid, was actually purchased.

Applicant Certification

12.13 Program applicants are not required to certify that their claims are legitimate, nor do they provide consent for the Department to contact suppliers to verify applicants' claims. The absence of these requirements weakens administrative control over the program.

Maximum Level of Assistance

12.14 The Limestone Incentive Program provides financial assistance for a maximum of 180 tonnes per applicant per fiscal year. A departmental policy document states that, "In the case of partnerships or incorporated farms, the maximum eligibility is 180 tonnes/partner up to a maximum of three part-

ners." In our opinion this policy does not adequately address the ownership alternatives for partnerships and incorporated farms.

12.15 Partnerships applying for program assistance are not required to disclose the percentage of each partner's interest. It is possible that a partnership might have nominal partners who have no beneficial interest in the farming operation, and whose pro rata share of owned or leased land may be less than five acres, which is the minimum amount of land required for an applicant to be eligible for assistance. Yet under the policy, the partnership could receive maximum eligibility.

12.16 Departmental staff have advised us that a husband and wife partnership is considered a sole proprietorship for the purpose of the program, and is treated as one applicant. This interpretation of a partnership, however, is not contained in the departmental program policy document.

12.17 Departmental staff have informed us that an incorporated farm is eligible for assistance on a maximum of 540 tonnes, regardless of the number of shareholders. Incorporated farms are not required to disclose the number of shareholders and the percentage of each shareholder's ownership.

RECOMMENDATIONS

12.18 The Department of Agriculture should evaluate the effectiveness of the Limestone Incentive Program.

12.19 Only those applications that are supported by proof of limestone purchases should be processed for payment. Only original receipts, supported by original suppliers' invoices should be accepted as proof of purchase.

12.20 The Limestone Incentive Program application form should be revised to include applicant certification of the claim, and consent for the Department of Agriculture to contact limestone suppliers.

12.21 Program rules regarding the maximum level of assistance for partnerships and incorporated farms should be reviewed, and clearly specified. Partnerships and corporations applying for assistance should be required to disclose sufficient information to ensure that program rules and eligibility criteria are complied with.

DEPARTMENTAL RESPONSE

12.22 The Department agrees with our report and has advised that corrective action will be taken on the matters raised.

13. PROVINCIAL LIBRARY

BACKGROUND

13.1 The Provincial Library, Department of Education, is responsible for operating the public library program. It is comprised of seven diversified units: Confederation Centre Library; Branch Libraries; Government Services Library; Bookmobile; Technical Services; School Library Consulting; and the Media Centre.

13.2 Management informed us that the main objectives are:
- providing an effective library service to all residents;
- operating a film library for schools, government agencies, and the public;
- providing a reference library service to Provincial Government employees and Members of the Legislative Assembly; and
- promoting the organization, development, and utilization of centralized school library resource centres and services.

13.3 The annual operating costs of the Provincial Library are approximately $1.6 million.

AUDIT SCOPE

13.4 In accordance with Section 13 of the Audit Act, an audit was performed to assess the management practices in place for the administration of the Provincial Library. Our audit report was issued in September 1989.

RESULTS IN BRIEF

13.5 The planning process needs to be improved.

13.6 Performance indicators have not been developed as a basis for assessing the effectiveness of each of the units of the Provincial Library.

13.7 At the time of our audit, there was a six to ten month backlog in the cataloguing of materials.

13.8 A microfiche catalogue system will soon be implemented. However the system, first recommended in 1978, is now considered out of date when compared to present technology.

13.9 A rental agreement between Confederation Centre and the Provincial Library is not documented.

13.10 The Government Services Library appears to be underutilized.

PRINCIPAL FINDINGS

Planning and Evaluation

13.11 Planning is necessary to facilitate managerial and operational control.

13.12 An operational plan has not been prepared on an annual basis. Performance targets have not been established against which to measure the success of the Division's activities.

13.13 Program evaluation assists management with resource allocation, program improvement, and accountability. The various units of the Provincial Library have not been adequately evaluated. The present informal evaluation is of limited usefulness.

Management Information Systems

13.14 Information is essential to enable management at all levels to make informed decisions. Some unit managers do not receive information on budget and actual expenditures in a timely and consistent manner. Performance information is not regularly prepared and analyzed to determine if the services provided are reasonable based on costs and user needs.

Backlog

13.15 The Technical Services Unit provides cataloguing services for its public libraries and, if requested, the school libraries. At the time of our audit, they were operating at a 6 to 10 month backlog with 11,000 books valued at $125,000 held for cataloguing. These include books for both public and school libraries. Management has since informed us, that as at the date of our report, the backlog has been improved to 3 to 6 months.

Microfiche Catalogue

13.16 A microfiche catalogue was recommended to the Provincial Library in 1978. The system however was not approved until 1986, and at the time of our audit it had not been completely developed, tested, and implemented.

13.17 Staff indicated that the system is becoming outdated. Changing technology has resulted in the use of the more effective on-line library catalogues in other provinces.

13.18 As well, other deficiencies with the microfiche system are apparent, for example, the omission of Media Centre materials and the lengthy time required to process additions and deletions to the system.

Confederation Centre Library

13.19 The Library rents its premises from the Confederation Centre. No formal rental agreement exists and responsibility for cleaning, maintenance, ventilation, office space, and lighting have been contentious issues over the past years.

Government Services Library

13.20 The Government Services Library was established to provide reference library services to the Provincial Government and Members of the Legislative Assembly. The library is comprised of 9,000 books and 200 periodicals. Annual operating costs are $42,000.

13.21 Although circulation of periodicals has increased, circulation of books has declined from a high of 763 in 1986 to a low of 430 in 1988. Management has informed us that the library is used extensively for reference, however, this element of use is not documented.

13.22 We made recommendations in a previous report to review the effectiveness of the Government Services Library because of the volume and nature of circulations.

RECOMMENDATIONS

13.23 An operational plan should be developed for the Provincial Library which supports the Department's strategic plan.

13.24 A practical approach should be developed for the periodic objective evaluation of the activities of the Provincial Library to determine if its objectives are being achieved.

13.25 Performance indicators should be developed for each unit and information to enable management to compare actual to expected results should be prepared and reported on a regular basis.

13.26 The Provincial Librarian should review the entire cataloguing process to determine: the reason for the backlog; if all steps in the process are necessary; and if a more efficient approach is possible. A plan of action to eliminate the backlog and to operate on a current basis should be developed.

13.27 Management should determine if the microfiche system is suitable, and take the necessary steps to have an adequate materials catalogue available to library users.

13.28 **A formal rental agreement between the Department of Education and Confederation Centre should be signed by representatives of both the Province and Confederation Centre.**

13.29 **An analysis of the operations of the Government Services Library should be performed to assess its effectiveness.**

DEPARTMENTAL RESPONSE

13.30 **The Deputy Minister has advised that a written reply will be provided on our report.**

14. HIGHWAY SAFETY DIVISION

BACKGROUND

14.1 The Highway Safety Division of the Department of Transportation and Public Works is responsible for the licensing of drivers and the registration of vehicles on Prince Edward Island. A number of activities of the Division are directed toward the promotion of highway safety. The Division operates the highway scales and has a variety of administrative and enforcement responsibilities under the Highway Traffic Act, the Roads Act, the Off Highway Vehicle Act, the Transportation of Dangerous Goods Act and the Motor Carrier's Act.

14.2 Revenue generated from licensing, registration, and related activity was $4.6 million for the fiscal year 1988-89 while expenditures of the Division were $2 million.

AUDIT SCOPE

14.3 In accordance with Section 13 of the Audit Act, an audit was performed to review the programs and management processes of the Division and to make recommendations where appropriate. Our report to the Department of Transportation and Public Works was issued in December 1989.

RESULTS IN BRIEF

14.4 There are weaknesses in the balancing procedures for daily cash receipts.

14.5 There is insufficient control over the correction of errors on the computerized registration and licensing system.

14.6 Inspection procedures, authorized under legislation, for shipments leaving the Province could be circumvented due to the scheduling and predictable hours of operation of the Borden Highway Scales.

14.7 Inspections under the Dangerous Goods (Transportation) Act are inadequate.

14.8 Follow-up to determine how well driver training programs are achieving their objectives needs to be improved.

PRINCIPAL FINDINGS

Cash Balancing

14.9 The Driver Vehicle Computer System records the revenue from vehicle registration and licensing transactions. Totals recorded on the system are

balanced to cash receipts daily to ensure that cash collected is accurate. We noted that a number of adjustments are required to reconcile the cash receipts to the recorded amount on the computer system.

14.10 A number of these adjustments did not explain the error or provide evidence of its subsequent correction. This lack of adequate documentation for cash balancing adjustments is a weakness in internal control.

Computer System Error Control

14.11 The computerized system records vehicle registrations, drivers' licenses, and revenues from registration, licensing, and sales tax collections.

14.12 Some errors remain on the system because the system program does not allow correcting entries to be made. This results in inaccurate data and affects the usefulness of information produced by the system.

Highway Scales Operation

14.13 The Dangerous Goods (Transportation) Act, Roads Act, and the Plant Disease Eradication Act give authority for government to inspect various shipments to and from the Province.

14.14 The inspections are performed at the highway scales. However, the scale at the Borden ferry terminal is not open all the time and is on a predictable schedule of operation.

14.15 The probability of the inspection process being circumvented is greater under this system of operation.

Dangerous Goods

14.16 The Province's Dangerous Goods (Transportation) Act provides the authority to examine goods and documents when there are reasonable grounds to believe that a vehicle is carrying dangerous goods.

14.17 Current inspection procedures for dangerous goods do not include inspection of the goods carried, but do include a review of shipping documents, driver certificates, and signage.

14.18 We also determined that individuals inspecting dangerous goods were not designated in accordance with the Dangerous Goods (Transportation) Act and did not carry certificates as required by the Act.

14.19 In addition, vehicles not displaying dangerous goods signage were not checked for dangerous goods or for documents indicating dangerous goods.

Driver Training Programs

14.20 Highway Safety Division provides mandatory training programs for individuals who have impaired driving convictions, individuals who incur excessive demerit point convictions, and novice drivers. Although courses were well designed with documented course objectives and instruction methods, there is little follow-up to evaluate how well programs are achieving their objectives.

RECOMMENDATIONS

14.21 Adjustments required to balance the daily cash receipts should be minimized and those required should be fully documented and explained.

14.22 Highway Safety Division should use an error log to document identification, explanation, and correction of errors affecting the computer system. The error log should be reviewed on a periodic basis.

14.23 The Division should assess the effectiveness of the operation of the highway scales in fulfilling the inspection requirements under legislation.

14.24 Highway Safety Division should develop guidelines to ensure inspections are carried out as provided by the Dangerous Goods (Transportation) Act.

14.25 Individuals performing dangerous goods inspections should be designated in accordance with the Dangerous Goods (Transportation) Act and carry the required certificates of designation.

14.26 Driver training programs should be evaluated to determine whether courses are resulting in improved driving habits.

DEPARTMENTAL RESPONSE

14.27 The report was discussed with senior officials who agree with our findings and recommendations.

15. COMMUNITY ECONOMIC DEVELOPMENT PROGRAM

BACKGROUND

15.1 The Community Economic Development Program is now administered by the Department of Community and Cultural Affairs. At the time of our audit, the Department of Industry was responsible for the program.

15.2 The objectives of the program are to create continuing jobs across the province through community economic development projects; to strengthen rural regions of the province through the establishment of new services and jobs; and to encourage workers to use the cooperative approach to creating their own jobs.

15.3 Assistance is provided to non-profit community organizations in the form of loan guarantees and interest rebates over the first four years of operation.

15.4 Community Economic Advisory Councils receive applications and make recommendations to the Minister, who has final decision-making authority. From the introduction of the program in December 1986 to March 1989, 24 projects have been approved granting $465,000 in interest rebates to be paid over four years.

AUDIT SCOPE AND METHODOLOGY

15.5 We conducted an audit in accordance with Section 13 of the Audit Act. A number of payments were examined to determine if they were adequately supported and complied with established program policies. Interviews were conducted and various reports and documents related to the program were reviewed. Our report was issued to the Department of Industry in June 1989.

RESULTS IN BRIEF

15.6 As a result of this program funds have been provided to rural communities for the purpose of creating jobs.

15.7 Adequate procedures do not exist to evaluate the projects and the program.

15.8 There was no formal agreement of the terms and conditions of the program by approved applicants.

15.9 Interest rebate advances have been granted in a limited number of cases. There were no policies established to indicate when interest rebate advances would be appropriate.

PRINCIPAL FINDINGS

Evaluations

15.10 It is important to monitor and evaluate approved projects to ensure that project objectives are being achieved and terms and conditions are being met. Recipients of assistance are required to complete a form prior to receiving the approved interest rebate, however, this form does not provide adequate information on the status of the project. Information including: capital costs incurred; number of positions created; amount of employment provided; and a description of how the project has contributed to the objectives of the program is essential for evaluating the projects and the program.

Acceptance of Terms and Conditions by Applicant

15.11 In return for the assistance provided, the applicant is expected to meet the terms and conditions of the program. The applicant is not, however, required to sign a formal letter of offer agreeing to the terms and conditions attached to the assistance provided.

Interest Rebate Advances

15.12 An interest rebate advance occurs when all or part of a rebate is provided to the recipient before the loan anniversary date. In January 1989, the program policies were updated to indicate that interest rebate advances may be issued at the Minister's discretion. There is no indication of what circumstances might give rise to an advance or how the amount of an advance will be determined.

RECOMMENDATIONS

15.13 Documented evaluations should be prepared for the program and each project on a timely basis, and include information on results achieved and actual costs in relation to projected targets.

15.14 The Department should stipulate the terms and conditions of the program in a letter of offer, for signature by the applicant.

15.15 A policy for interest rebate advances should be developed.

DEPARTMENTAL RESPONSE

15.16 The Department of Community and Cultural Affairs agrees with our audit report. Management has given serious consideration to all of our observations and has indicated that action will be taken.

16. SMALL BUSINESS ENHANCEMENT PROGRAM

BACKGROUND

16.1 The Small Business Development Division of the Department of Industry administers the Small Business Enhancement Program. It is funded 70 percent federal and 30 percent provincial under the Industrial Development subsidiary agreement.

16.2 The general objective of the program is to encourage and accelerate desirable development within the manufacturing and processing sector as well as eligible service industries throughout the Province.

16.3 The Program provides capital assistance to qualifying projects in the form of a conditional contribution. A Small Business Review Board makes recommendations for approval or rejection of applications to the Minister of Industry who has final authority.

16.4 In the 1988-89 fiscal year 87 applications were approved with expenditures totalling over $1 million.

AUDIT SCOPE

16.5 We performed an audit in accordance with Section 13 of the Audit Act, and issued our report in July 1989. The objective of the audit was to assess the management practices in place to administer the program. In addition, we followed up on recommendations made in our 1986 Comprehensive Audit Report on the Department of Industry that were relevant to this program.

RESULTS IN BRIEF

16.6 This program provides assistance to entrepreneurs for the establishment, modernization, or expansion of their business. The observations resulting from our audit centered on the administration and delivery of the program.

16.7 There were weaknesses noted in the establishment, formal approval, and application of program policies.

16.8 The documentation of inspections prior to disbursement of funds requires improvement.

16.9 Evaluation processes need to be strengthened.

PRINCIPAL FINDINGS

Program Policies

16.10 The Small Business Enhancement Program provides assistance to a variety of clients in many industries. It is reasonable to expect program policies would exist to ensure clients are granted or refused assistance based on criteria consistently applied by both staff and the Small Business Review Board. Formal approval of policies by the Minister is necessary to ensure that the program is delivered in accordance with departmental priorities. Our audit raised concerns regarding the establishment and formal approval of program policies.

16.11 For example, guidelines on eligibility and sensitive industries were compiled by the Department from Board Minutes and program delivery practices that evolved over time, however, these guidelines were not formally approved by the Minister. Although these guidelines were generally approved by the Small Business Review Board, the Board does not have authority to set policy. The terms of reference of the Board indicate that they may recommend program changes and policies to the Minister for his approval.

Documentation

16.12 Both the program guidelines and the letter of offer sent out upon approval of an application require that an inspection of the capital assets acquired be performed by the Department. This is to ensure that the assets meet the project specifications prior to initial disbursement of funds. In two of a sample of eleven files examined, there was no evidence that such an inspection had been performed prior to the funds being disbursed. A further weakness identified in the inspection process is that inspectors were not required to sign reports verifying that the capital assets acquired had been observed and compared to specifications.

Evaluations

16.13 For the fiscal year 1988-89 there were no quantified objectives or targets established to measure the success of the program. Information on actual jobs created is obtained on each project at the 12 and 24 month performance reviews, but there has been no attempt to summarize this information and use it to evaluate the program.

RECOMMENDATIONS

16.14 The existing guidelines should be reviewed, changed where required, and formally approved as policies by the Minister.

16.15 **Inspections should be carried out by the Department prior to disbursement of funds. Inspection reports should be maintained in the file, signed by the person who performed the inspection.**

16.16 **The Department should develop and implement a practical approach for the periodic, objective evaluation of the Small Business Enhancement Program.**

DEPARTMENTAL RESPONSE

16.17 **In general the response to our audit report was positive.**

17. SPECIAL COMMUNITY DEVELOPMENT PROGRAM

BACKGROUND

17.1 The Special Community Development Program is administered by the Department of Industry. It was established in 1988 to provide assistance for projects in the eastern and western areas of the Province that were experiencing difficulty in obtaining capital funding. The objective of the Program is to encourage economic development in these areas by offering a special seed capital grant for projects which support established regional development objectives.

17.2 Regional development objectives are established by Area Industrial Commissions or communities. To ensure that projects are integrated into the overall regional development strategy, submissions for project funding are to be made through the Area Industrial Commissions.

17.3 Twenty-four projects totalling $650,000 were approved in the period April 1, 1988 to March 31, 1989.

AUDIT SCOPE

17.4 We performed an audit in accordance with Section 13 of the Audit Act. The objective of the audit was to assess the management and control procedures in place over the program. Our report was issued to the Department of Industry in September 1989.

RESULTS IN BRIEF

17.5 This program has been successful in respect to injecting funds into the eastern and western areas of the Province.

17.6 Policies were lacking on the level of funding for eligible projects.

17.7 Policies were not complied with on all projects.

17.8 The roles and responsibilities of the Area Industrial Commission and the Department in monitoring approved projects were not clearly defined.

17.9 There was no standard application form or letter of offer.

17.10 Regional development objectives need to be documented.

17.11 Program evaluation procedures need to be improved.

PRINCIPAL FINDINGS

Program Policies

17.12 This program is designed to assist projects that would not otherwise be undertaken. The program information refers to providing seed capital to bring projects up to a level to attract other assistance. There are no policies in place however, regarding the level of funding that will be provided, instead the level of capital grant is to be determined by the Minister. We noted a wide variation in the level of assistance granted. The awards ranged from 5 to 100 percent of total project costs with most over 50 percent.

17.13 One program policy states that funds will not be awarded under this program until the whole funding package is arranged to allow for satisfactory completion of the project. In 5 of the 10 files examined, the other sources of funding were not indicated.

17.14 Another program policy requires projects to demonstrate how this grant will attract other private and/or government funds to the project. In 7 of the 10 files examined there was no documentation to demonstrate that this requirement had been met. One project was 100 percent funded through this program; another file contained no project description; and in another project $10,000 was awarded although construction was substantially complete and the required capital financing was in place.

Role of Area Industrial Commission

17.15 The Special Community Development Program is delivered with the assistance of Area Industrial Commissions in the eastern and western areas of the Province. The involvement of the Commissions range from sponsoring certain projects and providing input into project approval, to direct receipt of funds to set up projects on their own, some of which are entrepreneurial business ventures.

17.16 It is a requirement of the program that the planning and approach to government is through an Area Industrial Commission. Not all communities in the eastern and western areas of the Island fall within the jurisdiction of an Area Industrial Commission. In these instances the Department endeavours to deal with applications through other channels.

17.17 Monitoring of approved projects is required to ensure that the project is completed according to specifications, within the total cost limits, and to determine if project objectives are achieved. The Department relies to some extent on the Area Industrial Commissions for this type of monitoring. However, the responsibilities of the Commissions and the Department for project monitoring are not clearly defined.

Applications

17.18 We noted during our examination that a standard application form or letter of offer is not used in the program. An application is necessary to ensure that all the required information is obtained and documented before the project is considered for funding. An agreement is necessary to ensure that the applicant is aware of the obligations and conditions associated with receiving a grant under this program.

Objectives

17.19 Although there is a requirement that qualifying projects support the established regional development objectives, the Department could not provide us with information detailing these objectives. In this program many different communities are vying for a fixed amount of capital funding and these development objectives could affect how priority is assigned to the various projects.

Program Evaluation

17.20 Targets such as the number of continuing jobs to be created or the amount of other investment to be attracted were not established. Although the Department did gather summary information on the results of the projects, it did not go far enough in its evaluation to analyze and draw conclusions from the information which would be applicable to the program as a whole.

RECOMMENDATIONS

17.21 The Department should develop clearer policies for determining the level of seed capital for Special Community Development Program grants.

17.22 Established program policies should be followed.

17.23 The role and responsibility of the Area Industrial Commissions in the approval and monitoring of projects should be clearly established.

17.24 The Department should design and, in future, require completion of an application form and letter of offer.

17.25 Regional development objectives for the eastern and western areas of the Province should be documented and used by the Department in assessing the project submissions received from the Area Industrial Commissions.

17.26 The Department should develop and implement a practical approach for the periodic, objective evaluation of the Special Community Development Program.

DEPARTMENTAL RESPONSE

17.27 We have requested a written response to our report, but have not yet received a reply.

18. VITAL STATISTICS

BACKGROUND

18.1 The Division of Vital Statistics is a Section of the Management Services Division of the Department of Health and Social Services.

18.2 The objectives of the Section are as follows:

- to administer the province-wide registrations and statistical system in accordance with the Vital Statistics Act, Marriage Act, and Change of Name Act;
- to be the official provincial agency through which legitimizations, adoptions and changes of names are recorded;
- to control in accordance with the Vital Statistics Act access to the registration records;
- to serve as a source of vital statistics for various government organizations; and
- to register clergymen in accordance with the Marriage Act.

18.3 Total revenue for 1988-89 from searches, registrations, certificates and licenses was $67,000. Expenditures for the same period were $142,000.

AUDIT SCOPE

18.4 In accordance with Section 13 of the Audit Act, an audit was performed to assess the management practices in place. Our report was issued to the Department in September 1989.

PRINCIPAL FINDINGS

Confidentiality of Information

18.5 Important steps required under the Act and Regulations pertaining to confidentiality of information were not carried out.

18.6 Information is sent to government divisions where no specific individual has been designated as recipient. This represents a violation of the Vital Statistics Act and Regulations.

18.7 The Regulations indicate that persons, who represent an organization that requests information, should demonstrate that it is needed in discharging their official duties. Furthermore, the Act requires an oath of secrecy from those granted access to the information. The Director was not aware in all cases of why the recipients required the information they received. In addition recipients of information, outside of the Division of Vital Statistics, were not required to take the prescribed oath.

18.8 It was also noted that information was not classified as to sensitivity or level of confidentiality.

Control Over Cash Receipts

18.9 Cash is stored in an unlocked vault during working hours and is not deposited on a timely basis.

RECOMMENDATIONS

18.10 In order to ensure confidentiality of information as provided for in the Vital Statistics Act and Regulations, the following steps should be taken:

- The Director of Vital Statistics should ensure that only designated persons receive information from the Division.
- Each person authorized to receive information from the Division should be required to take the oath of secrecy as prescribed in the Act and Regulations.
- Consideration should be given to classifying the information under the control of the Director and assigning levels of confidentiality.

18.11 Cash should be deposited on a timely basis and procedures should be implemented to limit access to cash held for deposit.

DEPARTMENTAL RESPONSE

18.12 The report was discussed with department staff who agreed with our findings. A written response on their intended course of action has not been received.

19. TELEPHONE SYSTEM

BACKGROUND

19.1 In 1986, Treasury Board assigned the Department of Transportation and Public Works the responsibility for implementing a centralized telephone system.

19.2 The main advantages expected from the conversion included: increased efficiency for interdepartmental calling; increased capacity for growth; better service for incoming calls; better control over long distance telephone calls; and the transmission of computerized data. It was projected that long distance charges would decrease by $24,000 per annum and annual service charges would increase by $60,000.

AUDIT SCOPE AND METHODOLOGY

19.3 We examined the telephone system in accordance with Section 13 of the Audit Act. The objectives of our examination were to determine whether projected advantages of the new system are being realized, and to assess controls over long distance telephone calls.

19.4 Our examination included interviewing department administrators and the Department of Transportation and Public Works telecommunications officers, and examining a sample of long distance telephone charges.

RESULTS IN BRIEF

19.5 Annual telephone costs increased $510,000, or 28 percent over a two year period.

19.6 The benefits of the centralized telephone system are not being fully realized due to lack of a telephone management system.

19.7 A provincial telephone network, approved by Treasury Board in 1986, has not yet been established.

19.8 Controls over long distance telephone charges need to be improved.

PRINCIPAL FINDINGS

Telephone System Costs

19.9 Annual telephone costs across government increased 28 percent from $1.8 million in 1986-87 to $2.3 million in 1988-89.

19.10 Most department administrators attributed the increased costs mainly to a tendency to provide most employees with private lines. The Treasury Board Standards/Policy for Acquisition of Telephone Equipment and Related Services states that telephones and private lines should be provided only where a need is definitely established as a requirement of the job. It appears that those responsible for coordinating installation of the new telephone system have placed their emphasis on the conversion, rather than on determining the need for private lines.

Telephone Management System

19.11 A telephone management system has not been implemented although it was approved by Treasury Board as part of the centralized telephone system.

19.12 As a result, unnecessary network service costs of infrequently used private lines are not being identified, and the available controls over long distance charges are not being utilized.

Provincial Network

19.13 Treasury Board approved the establishment of a provincial government telephone network at the same time the centralized telephone system was approved.

19.14 Special services that would be available through networking are designed to reduce long distance charges. We were told that some departments have direct lines to long distance numbers, but these numbers are not published for the benefit of other government departments and agencies.

Long Distance Telephone Calls

19.15 Guidelines to help control long distance telephone calls do not exist. The control over long distance calls varies across government.

19.16 Our interviews with department administrators, along with testing a sample of long distance telephone calls, indicate that procedures followed by departments could be improved.

RECOMMENDATIONS

19.17 The Department of Transportation and Public Works should ensure that the Treasury Board Standards/Policy for Acquisition of Telephone Equipment and Related Services is complied with.

19.18 **The Department of Transportation and Public Works should assess the costs and benefits of implementing the previously approved telephone management system.**

19.19 **The Department of Transportation and Public Works should ensure that the benefits from telephone networking are maximized.**

19.20 **The Department of Transportation and Public Works in consultation with Treasury Board should develop guidelines addressing; procedures to be followed before paying telephone bills, documentation required for long distance calls, and the procedures for personal long distance calls.**

MANAGEMENT RESPONSE

19.21 We discussed our report with senior officials in Treasury Board and the Department who agreed with our findings.

20. WOMEN'S DIVISION

BACKGROUND

20.1 The Women's Division is under the administration of the Department of Labour. The Division received its mandate in 1987 upon the approval by Executive Council of a report from the Committee Established to Receive Public Input into the Structure and Mandate of the Women's Division.

20.2 Budgeted expenditures for the Women's Division for 1989-90 amounted to $330,600.

AUDIT SCOPE AND METHODOLOGY

20.3 We conducted a review of the Women's Division which was limited in scope because the Division was in the process of developing a five year plan to implement its mandate.

20.4 We reviewed some financial information, the Division's Annual Report, various documents related to the structure and mandate of the Division and we interviewed the Division Director.

RESULTS IN BRIEF

20.5 We presented a report to the Director of Women's Division that included brief comments relating to planning and the relationship of the Women's Division with the Advisory Council on the Status of Women. The Division has since completed a five year plan and responded to the other points raised in our report.

REPORTS ON FINANCIAL AUDITS

21. INTRODUCTION TO FINANCIAL AUDITS

21.1 Section 13(1) of the Audit Act establishes the mandate for financial audits of the Public Accounts, Crown controlled or owned corporations, and of the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

21.2 A substantial part of the office's resources are required to perform financial audits required by legislation. The objective of these audits is to express an opinion on the financial position and operating results of these entities. Therefore, the main output from these audits is often limited to the standard auditor's report on the financial statements.

21.3 In some cases the auditor may observe problems in the quality of records and financial controls. Problems may also be observed in other areas. In these cases audit findings and recommendations are reported in a management letter addressed to the client.

21.4 A summary of the more significant points made in management letters is provided in subsequent sections. Following is a list of financial statement audits performed this year and the expenditures of each entity.

AUDIT ENTITY	ANNUAL EXPENDITURES
Public Accounts	$690,334,000
Hospital and Health Services Commission	105,360,000
Liquor Control Commission	28,59[illegible],000
Housing Corporation	9,596,000
Land Development Corporation	3,669,000
Crop Insurance Agency	1,448,000
Grain Elevators Corporation	5,030,000
Crown Building Corporation	556,000
Charlottetown Veterinary Clinic	1,719,000
Lotteries Commission	3,670,000
Civil Service Superannuation Fund	7,400,000
Teachers' Superannuation Fund	7,368,000
MLA Pension Fund	427,000
Museum and Heritage Foundation	872,000
Human Rights Commission	101,000
Advisory Council on the Status of Women	135,000
Self Insurance and Risk Management Fund	83,000
Carnegie Endowment Fund	9,000
Official Trustee	n/a
Supreme Court Trust Accounts	143,000

22. PUBLIC ACCOUNTS

BACKGROUND

22.1 The Financial Administration Act requires the Minister of Finance to table the Public Accounts annually in the Legislative Assembly.

22.2 The Public Accounts include two main sets of financial statements; the Consolidated Fund, and the All Funds. The Consolidated Fund financial statements provide the financial position and results of operations for government excluding Crown corporations. The second set of financial statements provides a consolidated financial picture by including the Consolidated Fund plus most Crown corporations.

AUDIT SCOPE

22.3 In accordance with Section 16 of the Audit Act we performed an audit of the Public Accounts for the year ended March 31, 1989.

RESULTS IN BRIEF

22.4 The presentation of information on the financial position and results of government operations was enhanced this year with the publication of a summary financial report.

22.5 A number of significant recommendations by the Public Sector Accounting and Auditing Committee are under consideration.

22.6 Substantial payments were made on the loan guarantee to the Hog Commodity Board.

22.7 The method for establishing the year end sales tax provision for future losses needs to be reviewed.

22.8 Accrued interest revenue of $200,000 was not recorded in the correct year.

22.9 Interest capitalized on construction projects after the date of occupancy resulted in an $800,000 understatement of expenditures for the year ended March 31, 1989.

PRINCIPAL FINDINGS

Disclosure and Presentation

22.10 A significant recommendation from our 1986-87 review of the Public Accounts disclosure and presentation was implemented this year. A Financial

Report was prepared this year which includes summarized financial statements and provides useful information and analysis on the economy, the deficit, and the Province's revenues, expenditures, and debt. This report is a substantial improvement in presenting meaningful information to Members of the Legislative Assembly and other interested parties.

22.11 Other recommendations, such as the preparation of a Statement of Responsibility and the provision of additional information by type of expenditure, have also been implemented. Still to be dealt with are an appropriate definition of capital expenditures and enhanced information on loans receivable and loans payable.

22.12 The Public Sector Accounting and Auditing Research Study on physical assets has just been published and the appropriateness of its recommendations for the Public Accounts has to be assessed.

22.13 The Public Sector Accounting and Auditing Committee had two new statements released this year: "Defining the Government Reporting Entity" and "Accounting for Employee Pension Obligations in Government Financial Statements". These statements will require careful study to determine their impact and feasibility of implementation.

22.14 We continue to work with the Department of Finance in promoting improvements to the Public Accounts to ensure the Legislative Assembly receives sufficient meaningful information.

Guaranteed Debt

22.15 As at March 31, 1989 guaranteed debt for the All Funds and Consolidated Fund are disclosed as $42 million and $25 million respectively.

22.16 Last year, we reported that the guarantee for the Hog Commodity Board loan was expected to be $8 million by March 1989. As a result, we recommended an appropriate loss provision be recorded in the Public Accounts.

22.17 A $6 million payment was made in 1988-89, and a further payment of $1 million was made in 1989-90, leaving an outstanding balance of $1.2 million on the loan guarantee.

Sales Tax Allowance

22.18 At March 31, 1989 the balance of the allowance for future losses was $194,000. In May 1989, Revenue Division identified $820,000 of accounts that were in receivership or bankruptcy. In December 1989, $300,000 of these receivables were written-off.

Accrued Interest Revenue

22.19 Accrued interest revenue of $200,000 earned on a term deposit was not recorded in 1988-89. As a result 1988-89 interest revenue was understated by $200,000.

Capitalized Interest

22.20 Interest charges on two capital construction projects were capitalized to March 31, 1989 even though the dates of occupancy had been much earlier in the year. This resulted in $800,000 being added to the loan balances rather than to operating costs.

22.21 In addition, this accounting treatment does not comply with the definition of "project costs" as outlined in the recently released Treasury Board Policy and Procedures manual.

Surpluses (Deficits) of Government Agencies

22.22 Section 16(f) of the Audit Act requires the Auditor General to report any deficits of government agencies not covered by appropriations and any surpluses not paid into the Consolidated Fund. For the year ended March 31, 1989 we report the following.

Government Agency	Surplus <Deficit>
PEI Crop Insurance Agency	$ <452,708>
PEI Energy Corporation - Operating	309,249
- Capital	2,681,669
Georgetown Shipyard Inc.	13,223
PEI Grain Elevators Corporation	<73,304>

22.23 The above entities have been directed by the Lieutenant Governor-in-Council to carry over their surplus or recoup the deficit.

Financial Administration Act Write-Offs

22.24 Section 16(g) of the Audit Act requires the Auditor General to report the total amount of any claims, obligations, debts or money due to the Province that have been discharged, cancelled and released under Section 17 of the Financial Administration Act. The amount written off under this section in 1988-89 was $388,000.

RECOMMENDATIONS

22.25 The method of calculating the sales tax provision for future losses should be reviewed to ensure it accurately reflects uncollectable amounts.

22.26 Greater care is needed to ensure all interest revenue is recorded in the correct year.

22.27 In future, interest charges relating to capital projects should be properly recorded.

DEPARTMENTAL RESPONSE

22.28 The points raised have been discussed with senior staff.

23. APPROPRIATIONS

23.1 Our audit of appropriations included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, additional appropriations approved by Executive Council on the recommendation of Treasury Board, and transfers approved by Treasury Board.

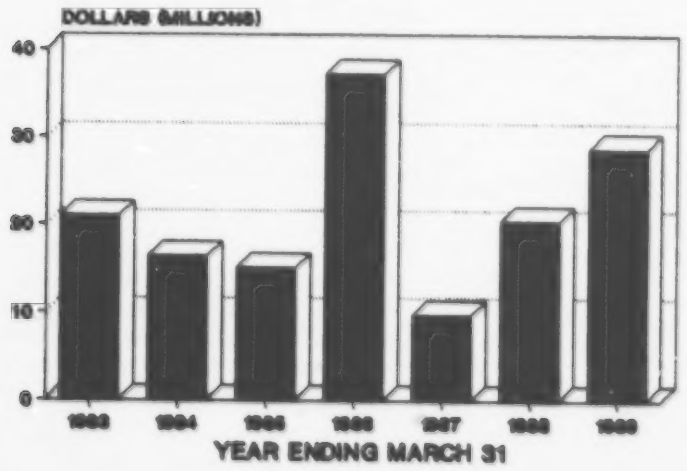
23.2 In SCHEDULES A and B attached to this report, we have compared appropriations with actual expenditures in accordance with the classifications in the 1988 Appropriation Act.

	SCHEDULE A ORDINARY ($000'S)	SCHEDULE B CAPITAL ($000'S)	TOTAL ($000'S)
Appropriations			
Original Act 1988 Session	$ 583,485	$ 42,029	$ 625,514
Supplementary Act 1989 Session	25,731	185	25,916
Increases by Order-in-Council	2,842	-	2,842
Total Appropriations	612,058	42,214	654,272
Actual Expenditures	605,092	41,337	646,429
Underexpenditures	$ 6,966	$ 877	$ 7,843

23.3 Section 16(h) of the Audit Act requires me to report on additional appropriations. Details are shown in SCHEDULE C attached to this report. A number of the additional appropriations have revenue offsets under cost-sharing agreements with the Federal Government.

23.4 For the 1988-89 fiscal year, additional appropriations totalled $28.7 million compared to $20.4 million in 1987-88. EXHIBIT 23.1 which follows indicates the additional appropriations issued over the last seven years.

EXHIBIT 23.1



24. PROPERTY TAX

BACKGROUND

24.1 The administration of the property tax system is the responsibility of two divisions within the Department of Finance, the Real Property Records Division and Revenue Division. The Real Property Records Division determines property assessments while Revenue Division is responsible for the actual billings and collections. The Province also collects property taxes levied by municipalities.

24.2 The 1989 property tax levy of $42 million consisted of a $25 million provincial levy and a $17 million municipal levy.

AUDIT SCOPE

24.3 Our audit of the financial records was conducted in accordance with Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Assessment of Utilities

24.4 The assessed value of utility distribution equipment is based on a percentage of gross revenues. This method is commonly used in other provinces and has been used by the Department since the early 1970s. At that time, the Province and the utilities reached an agreement on rates to be used in calculating property tax.

24.5 Approximately $1 million is generated from property tax levied on utility distribution equipment. Currently, Real Property Records Division relies solely on the utilities' declarations of gross income and do not receive audited financial reports.

24.6 During our audit, we were unable to locate any documents that provided details of the agreement. As a result, we were unable to determine if the appropriate amount of property tax was being remitted.

Calculation of Interest

24.7 The Real Property Tax Act and Regulations deal with the due date for the collection of taxes. We noted an apparent contradiction in the Act and the Regulations regarding when interest should be charged on overdue taxes. Revenue Division disagreed with our finding, however, a legal opinion from the Department of Justice confirmed our audit observation. Revenue Division and the Department of Justice are currently working on the matter.

RECOMMENDATIONS

24.8 The assessment of utilities should be formally documented and the assessments made should be based on verifiable information obtained from the utilities.

24.9 The Real Property Tax Act and Regulations pertaining to interest on overdue taxes should be reviewed and amended if necessary.

DEPARTMENTAL RESPONSE

24.10 Management is following up on the points raised.

25. PEI MUSEUM AND HERITAGE FOUNDATION

BACKGROUND

25.1 The Museum Act established the PEI Museum and Heritage Foundation. The Minister of Community and Cultural Affairs is responsible for the administration of the Museum Act, while the work of the Museum is under the general direction of an appointed Board of Governors.

25.2 The purpose of the Museum is to study, collect, preserve, interpret, and protect the human and natural heritage of Prince Edward Island for the use, benefit, and enjoyment of the people of the Province. For the year ended March 31, 1989 the Museum incurred expenditures of $872,000.

AUDIT SCOPE

25.3 A financial statement audit was conducted under the authority of Section 13 of the Audit Act.

RESULTS IN BRIEF

25.4 Procedures for the recording of book shipments are weak resulting in the risk of unrecorded sales and accounts receivable.

25.5 Staff performing the annual inventory count were not given formal instructions and the count was inadequately supervised.

25.6 The accounts receivable policy is not being complied with and controls over accounts receivable are weak due to poor segregation of duties.

25.7 In some cases the documentation required to support the financial accounts is inadequate.

25.8 Control over Museum sites needs to be improved.

PRINCIPAL FINDINGS

Book Shipments

25.9 The Museum uses pre-numbered shipping orders to record the shipment of books to a customer. These shipping orders are then used by the accounting department to record the sale and the account receivable. We noted the Museum does not ensure that all shipping order documents have been accounted for. Without the process of accounting for these documents, there is a risk of unrecorded sales and receivables due to misplaced and unprocessed shipping orders. In such circumstances the Museum would not be able to collect the money due.

Inventory Count Procedures

25.10 The Museum performs a year-end inventory count as part of normal accounting procedures. No formal instructions were given to the employees involved and the count was not supervised by accounting staff. We also noted that inventory is stored in many areas throughout the building instead of in one general location. Such circumstances usually lead to an inaccurate inventory count, resulting in errors on the financial statements.

Granting Credit

25.11 The Board of Governors of the Museum approved a policy on accounts receivable. Part of that policy dealt with criteria which customers must meet in order to receive credit. We found that procedures do not include a check to ensure customers meet those criteria.

Cheque Control

25.12 The Museum requires two signing officers to sign all cheques. During the course of the audit we noted that a number of blank cheques had been pre-signed by one of the signing officers.

25.13 The purpose of having two signatures on cheques is to ensure that no one person is in a position to make unauthorized, erroneous, or fraudulent payments. Pre-signing cheques defeats that purpose and creates an opportunity for loss to the Museum.

Segregation of Duties

25.14 We noted that the accountant had a number of responsibilities including the handling of cash, recording accounts receivable, performing bank reconciliations and authorizing the write-off of bad debts. Normally those functions should be segregated to ensure adequate internal control.

Documentation

25.15 We noted several instances where payments made by the Museum were not supported by invoices or other appropriate back-up. Also, the Museum was unable to locate a cash receipt book which had been used during the year. These documents are required to ensure the authenticity and accuracy of information recorded in the financial accounts.

Museum Sites

25.16 During the audit we noted some administrative problems with various Museum sites:

. Green Park did not submit a regular site revenue report during the entire summer of 1988. This is a weakness in internal control and poses problems in monitoring the site's activity, identifying and recording the cash deposited to the Museum's bank account by that site, and in breaking down the cash deposits into proper revenue and expenditure accounts for financial reporting purposes.

. Green Park and Orwell Corner made cash expenditures during the 1988-89 year from revenues collected. This practice is unacceptable for both internal control and administrative reasons.

Basin Head Agreement

25.17 The PEI Museum and Heritage Foundation pays an operating grant to the Basin Head Museum. An agreement was in place governing the relationship and responsibilities of the two organizations. That agreement expired in 1986. Without an agreement the nature of the relationship with Basin Head and the responsibilities of the Museum and Heritage Foundation are left open to interpretation.

25.18 We have been requested to perform an audit of the Basin Head Fisheries Museum to determine if appropriate financial controls are being followed.

RECOMMENDATIONS

25.19 The serial continuity of shipping orders should be accounted for to ensure all sales and receivables are recorded.

25.20 Responsibility for the year-end inventory count should be clearly defined and count procedures should be documented.

25.21 The Museum should ensure that all customers granted credit meet the appropriate criteria as outlined in the account receivable policy.

25.22 Museum cheques should not be pre-signed.

25.23 Overdue accounts receivable should be identified by the accountant and their write-off approved by management. Control in this area could also be improved by having other staff members responsible for cash receipts and preparing the bank deposit.

25.24 Source documents, such as cash receipt books, should be stored in a secure area, and all payments should be supported by invoices.

25.25 In order to improve control over sites the Museum should ensure all sites submit regular site revenue reports along with copies of their deposit slips, and prohibit the practice of paying expenditures from cash.

MANAGEMENT RESPONSE

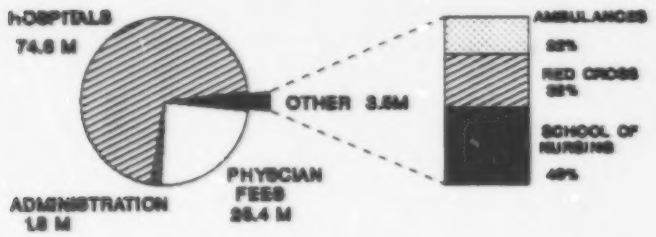
25.26 The Museum has responded to our recommendations and intends to take corrective action.

26. HOSPITAL AND HEALTH SERVICES COMMISSION

BACKGROUND

26.1 The Hospital and Health Services Commission Act established the Commission as a Crown Corporation. Expenditures of the Commission amounted to over $105 million in the fiscal year 1988-89. This represents approximately 17 per cent of the Province's total current expenditures. EXHIBIT 26.1 shows the breakdown of the Commission's expenditures.

EXHIBIT 26.1
COMMISSION EXPENDITURES
MARCH 31, 1989



AUDIT SCOPE

26.2 A financial statement audit was conducted to enable an opinion to be expressed on the fairness of the presentation of the Commission's financial statements.

RESULTS IN BRIEF

26.3 Controls over the processing of data in the Health Information System need to be improved.

26.4 The procedures performed in connection with out-of-province medical claims need to be improved.

26.5 Control over blank cheques and access to the cheque signing machine are inadequate.

PRINCIPAL FINDINGS

Health Information System Controls

26.6 The Commission utilizes a computerized system to process medical claims submitted by physicians. The value of these claims exceeded $23.3 million in 1988-89.

26.7 We found that the Commission does not reconcile the total value of cheques produced to the total value initially claimed by physicians. This is an essential control to ensure the computer routines are operating correctly, and are paying claims at the correct amount.

26.8 The Commission does not assign senior staff to review the work of staff assessors. The manual assessment process requires knowledge of the Health Services Payment Act, the Tariff of Physician Fees, and the computerized processes involved in claim processing. Without reviewing the work of these assessors, it is not possible to determine whether the function is being carried out accurately and consistently by all staff involved. This problem becomes more acute when new persons fill the assessment positions.

26.9 Access to the computerized health information system is primarily controlled by the use of passwords. The current procedures for assigning and monitoring passwords is not providing effective control over access to confidential medical information.

Out of Province Medical Claims

26.10 When paying medical claims for Island residents who receive treatment in another province, the Commission relies on the other provinces to perform validation and assessment procedures on the claims.

26.11 Services provided to Island residents by off-Island physicians do not result in updates to the patients' medical history files at the Commission. Since claim assessment routines use these medical histories, assessments of any future in-province medical claim may be affected.

26.12 The Commission subjects in-province medical claims to random internal audit confirmation letters to ensure services were actually provided to the patient. This is not done for out-of-province medical claims.

Ambulance Claims

26.13 One of the ambulance operators currently submits a diskette summarizing the ambulance trips made during a period. This summary is used by the Commission to pay for the ambulance service. The other ambulance operators continue to send in an individual claim form for each ambulance trip claimed. These claim forms contain the signature of an authorizing

agent, either a police officer or physician, as proof that ambulance services were provided.

26.14 The diskette information does not contain these required signatures. As a result, the Commission has no control procedure to ensure that services claimed were actually provided.

Control Over Cheques

26.15 We noted that blank cheques are not stored in a secure area and that control over the cheque signing equipment is inadequate.

26.16 These factors create an opportunity for a person to obtain a blank cheque and get it signed. Since the Commission routinely issues large cheques and maintains a large bank balance or line of credit, the potential for a misappropriation of funds exists.

RECOMMENDATIONS

26.17 The Commission should review controls over medical claim payments and ensure that the total cheques generated are reconciled to the amounts claimed.

26.18 Senior staff should periodically review the work performed by staff assessors.

26.19 Passwords should be known only to individual users and the system administrator, and they should be changed periodically.

26.20 The Commission should subject out-of-province medical claims to random internal audit confirmation letters.

26.21 The Commission should ensure patient medical files are updated for services provided by out-of-province physicians.

26.22 The Commission should design control procedures to ensure it is paying for ambulance services provided.

26.23 Control over access to the cheque signing machine and to blank cheques should be strengthened.

MANAGEMENT RESPONSE

26.24 The Commission agreed with our findings and recommendations, and action has been taken or will be taken on the recommendations.

27. PEI LAND DEVELOPMENT CORPORATION

BACKGROUND

27.1 The Land Development Corporation was established by an act of the Legislature in 1969.

27.2 The overall objective of the organization is to advance the interests of farmers in an economic and efficient manner. The principal activity of the Corporation is purchasing farm land and assisting farmers who require land by making this land available for sale or lease on reasonable terms.

27.3 At March 31, 1989 the Corporation owned $31.7 million in assets and incurred operating expenses of $3.7 million for the year. The province appropriated $945,000 towards those expenses.

AUDIT SCOPE

27.4 We performed a financial statement audit for the year ended March 31, 1989 in accordance with Section 13 of the Audit Act.

RESULTS IN BRIEF

27.5 Applications under the Leaseback to Vendor Program were approved and processed without meeting some of the conditions required by the Board.

27.6 Currently, there is no adequate mechanism in place to monitor management agreements.

27.7 Land was purchased and leased to farmers without fulfilling the required conditions on which the Board based its approval.

27.8 There were significant delays in the renewal of expired leases.

27.9 The Board received incorrect information because of delays in posting some accounts.

PRINCIPAL FINDINGS

Leaseback to Vendor Approvals

27.10 Applications under the Leaseback to Vendor Program were approved and processed without meeting the conditions required by the Board. The program is designed to assist clients who have had financial difficulties and therefore are considered to be a high risk.

27.11 In order to be eligible for the program a large number of criteria must be met. There was insufficient written evidence in the files to indicate whether all of the conditions were fulfilled by each applicant: two of the applicants did not have written approval of all of their creditors; one did not have written proof of operating credit; and there was no written evaluation of production averages for at least three of the applicants.

Management Agreement Follow-up

27.12 The Corporation requires Leaseback to Vendor and other high risk clients to sign a Management Agreement as a condition of signing the lease. The Department of Agriculture, the Land Development Corporation, and the lessee are all parties to the agreement.

27.13 The agreement requires a representative of the Department of Agriculture to visit the farm four times a year and report the results to the Corporation. The farmer agrees that all capital improvements shall have the prior approval of the Corporation and annual financial statements will be submitted to the Corporation within 120 days of his year end.

27.14 The Corporation does not perform sufficient follow-up to ensure that the conditions of the Management Agreements are met.

Conditions of Approval

27.15 Three instances were noted where the Board approval of a purchase and lease was based on extra conditions being met. These conditions were not fulfilled, yet the land was purchased and leased to the farmers.

Expired Leases

27.16 We found 5 examples in our sample of 27 leases where there was significant delay from the time the lease expired to the time of renewal. In each of these examples, the account was not in arrears.

Subledger Posting

27.17 The Board received incorrect information on two properties because the inventory records were not changed to reflect a write-down in value. The difference in value of these two properties was approximately $20,000. Total write-downs of $385,000 for all properties as of March 31, 1988 were not posted to the inventory records until March 1989.

RECOMMENDATIONS

27.18 All criteria of the Leaseback to Vendor Program should be adhered to and evidence of such compliance should be retained by the Corporation.

27.19 Responsibility should be assigned and procedures established to monitor the conditions of the Management Agreements.

27.20 Staff should ensure that all conditions required by the Board are met before lease agreements are signed.

27.21 For leases which are expiring, the Corporation should give the lessee a reasonable period of time to renew under the conditions of the old lease, exercise the option to purchase, or give up the lease.

27.22 Inventory records should be adjusted on a timely basis to reflect any changes in value.

MANAGEMENT RESPONSE

27.23 Management of the Corporation have responded positively to our report. They have advised us that action will be taken to deal with our concerns.

28. PEI GRAIN ELEVATORS CORPORATION

BACKGROUND

28.1 The Corporation was established under the Grain Elevators Corporation Act.

28.2 The objectives of the Corporation as stated in this Act are:
- to stimulate feed grain production in the province;
- to bring uniformity to the industry through marketing of grain produced in the province;
- to provide facilities for the central marketing, drying, and storage of grain;
- to provide distribution outlets for grain producers, livestock feeders and the feed industry.

28.3 Sales for the year were approximately $4 million and the Corporation showed a net loss of $73,000 after including the provincial operating grant of $169,000. The Corporation utilizes facilities provided by the Province at no charge to the Corporation.

AUDIT SCOPE

28.4 A financial statement audit was performed for the year ended March 31, 1989.

PRINCIPAL FINDINGS

Special Bin Contracts

28.5 When examining a sample of special bin sales, we were unable to locate four signed contracts. Apparently these contracts were sent to the customers for signature but had not been returned.

28.6 Obtaining a signed contract is necessary in the event the customer fails to comply with the sale agreement. It was also noted that the General Manager does not initial the special bin contracts to signify his approval of actual sale conditions outlined in the contracts.

Signing of Grain Sales Report and Waiver (GSRW)

28.7 During our testing of sales, we noted several GSRWs for credit sales that were not signed by the customer. The customer's signature on the GSRW is necessary to protect the Corporation if a customer disputes a charge to his account.

Soybeans

28.8 The Corporation participated in a soybeans pool with the P.E.I. Bean Grower's Co-op. Guidelines for the program were developed and verbally agreed to by both parties, however, a formal agreement was never signed.

28.9 Under the guidelines, the Corporation provided storage and administrative services for the Co-op. While in storage, approximately 90 tonnes of soybeans spoiled. Corporation staff are uncertain as to the cause of the spoilage.

28.10 At March 31, 1989 the Corporation purchased 180 tonnes of soybeans including the 90 tonnes that were spoiled. This resulted in a $35,000 loss to the Corporation because the spoiled soybeans had no value.

Inventory Control

28.11 The weighing of inventory at Elevator #1 indicated mixing of grains is a problem. Approximately 200 tonnes of barley, oats, wheat, and corn were accidentally mixed. Similar problems were noted during the 1987-88 audit.

28.12 The mixing of grains could result in reduced revenue if the Corporation is forced to sell these grains as a lower grade. The Elevator manager feels he can sell existing mixed grains at full value.

Signing Authority

28.13 The signing authority dated January 1988 provided to the bank makes reference to Cash Purchase Tickets which are no longer used by the Corporation. The signing authority letter makes no reference to payroll documents which are processed by the bank. In addition, cheques under $1,000 can be issued with the accountant's signature only.

Bookkeeping

28.14 During 1988-89, accounts receivable subledgers were not balanced to the general ledger control accounts on a periodic basis. This procedure is necessary to ensure accounting records are accurate. For example, the January 31, 1989 total of all accounts receivable subledgers was $74,000 more than the corresponding general ledger account.

28.15 The general journal is used to make entries to the accounting records for non-routine transactions such as credit adjustments or error corrections. General journal entries are entered directly into the computer and are not approved by the General Manager. In smaller organizations, it is important for senior management to approve all non-routine transactions in order to compensate for weak controls caused by the limited segregation of duties.

RECOMMENDATIONS

28.16 A signed contract should be obtained promptly for all special bin sales.

28.17 All GSRWs for credit sales should be signed by the customer.

28.18 Greater care should be exercised in the handling and moving of grain in the Elevator to prevent the mixing of differently priced grains.

28.19 Signing authorities should be reviewed and should include instructions regarding payroll documents.

28.20 Account receivable subledger balances should be reconciled to the general ledger account on a monthly basis.

28.21 All journal entries should be approved by the General Manager.

MANAGEMENT RESPONSE

28.22 The management letter was discussed with the General Manager. To date no written response has been received.

29. PEI CROP INSURANCE AGENCY

BACKGROUND

29.1 The Crop Insurance Agency was established to provide financial protection against crop losses resulting from uncontrollable circumstances.

29.2 The cost of the program is shared between the Federal and Provincial Governments and the farmers. The Province pays for the administrative expenses of the organization while the Federal Government contributes amounts to match the premiums paid by insured farmers.

29.3 The Agency had a net income of $1.3 million in 1989, a substantial improvement from the net loss in 1988 of $1.5 million.

29.4 The Province appropriates for all administrative expenses of the Crop Insurance Agency. In 1989, these expenses totalled $210,000.

29.5 The Crop Insurance Agency and the Land Development Corporation are administered by the same general manager. It is planned that the two Corporations will be amalgamated.

AUDIT SCOPE

29.6 Our financial statement audit was conducted in accordance with Section 11 of the Crop Insurance Act.

PRINCIPAL FINDINGS

Documentation of Crop Loss Dates

29.7 Proof of Loss forms are used to document measurements and financial claims concerning a particular loss. Eleven Proof of Loss forms out of the thirty we examined were signed after the date prescribed by regulations.

29.8 We were informed that in most of these cases the date on the Proof of Loss form was not the date the farmer contacted the Agency concerning his loss, and that verbal notification was received prior to the prescribed date. The Agency, however, has not maintained a record or log of loss notifications from the farmers.

Monetary Errors

29.9 Calculation errors were found during the course of our audit in the areas of travel claims, and premiums charged to farmers.

RECOMMENDATIONS

29.10 The Agency should implement a policy to ensure that all reported losses are formally documented. Documentation should detail the nature of the loss and the date the loss was reported to the Agency.

29.11 Steps should be taken to ensure all calculations are performed correctly.

MANAGEMENT RESPONSE

29.12 Management agreed with our points.

30. PEI LIQUOR CONTROL COMMISSION

BACKGROUND

30.1 The Prince Edward Island Liquor Control Commission administers the Liquor Control Act.

30.2 The Commission has indicated that its major objectives are to provide the most efficient system of distribution of alcoholic beverages to the public, maintain a high level of customer service, and maximize revenues to the Minister of Finance while keeping in mind government policies.

30.3 Gross sales for the year ended March 31, 1989 totalled $50 million. Net income equaled $9.4 million, while provincial health and sales tax collected totalled $12.4 million.

AUDIT SCOPE

30.4 In accordance with Section 87(5) of the Liquor Control Act, a financial audit was performed on the accounts and records of the Prince Edward Island Liquor Control Commission.

RESULTS IN BRIEF

30.5 As a result of our audit we made observations and recommendations to improve financial control in the following areas: completion of monthly stock statements; authorization of cheques; draught beer payments; documentation on cash register adjustments; and receiving slips for beer purchases. The Commission responded positively to our findings and recommendations.

31. CHARLOTTETOWN VETERINARY CLINIC

BACKGROUND

31.1 For the year ended March 31, 1989, the Charlottetown Veterinary Clinic had an operating loss of $128,000. This loss was appropriated by the Province.

31.2 The Crown Building Corporation purchased the veterinary clinic in October 1987 to provide a caseload for the college. A Coordinating Committee comprised of veterinarians from the Charlottetown Veterinary Clinic and the Atlantic Veterinary College coordinates case load requirements and the transfer of clients from the Charlottetown Veterinary Clinic to the Atlantic Veterinary College.

AUDIT SCOPE

31.3 In accordance with Section 13 of the Audit Act, we performed an audit of the Charlottetown Veterinary Clinic.

RESULTS IN BRIEF

31.4 As a result of our audit, we made observations and recommendations to improve financial control in the following areas: authorization policies; payroll; and approval of Board and Committee minutes. Management is considering these points.

32. CIVIL SERVICE SUPERANNUATION FUND

BACKGROUND

32.1 Employees of the Province and certain of its entities are entitled to receive pension benefits pursuant to the provisions of a pension plan under the Civil Service Superannuation Act. Employees and the employer make matching contributions; investment income is credited to the fund; and payments to pensioners and terminating employees are charged to the fund. At March 31, 1989, the fund held assets totalling $98.4 million. These funds are professionally managed by investment managers external to government.

32.2 An actuarial valuation of the fund as of March 31, 1987 indicated an unfunded liability of $63 million Payments out of the Civil Service Superannuation Fund are guaranteed by the Province.

AUDIT SCOPE

32.3 In accordance with Section 13 of the Audit Act, we performed an audit of the financial statements of the Civil Service Superannuation Fund for the year ended March 31, 1989.

PRINCIPAL FINDINGS

Senior Compensation Plan Provisions

32.4 The Senior Compensation Plan provides for the rollover of employer contributions and related interest to a Registered Retirement Savings Plan (RRSP).

32.5 These provisions are authorized under Section 8 of the Civil Service Act, however, there is no authorization within the Civil Service Superannuation Act to allow these payments to be made from the Civil Service Superannuation Fund.

32.6 In the past four years rollovers of employer contributions totalling $97,400 have been made from the Civil Service Superannuation Fund.

Accounting Procedures

32.7 With annual transactions totalling more than $28 million, the maintenance of accurate and up to date accounting records is important. A review of the cash book and general ledger to the end of September 1989 revealed that the cash book was not added and balanced and postings had not been made to the general ledger since April 1989.

32.8 Detailed schedules of accounts payable and accounts receivable were not prepared and reconciled to the general ledger balances. Similarly the contribution subledger was not reconciled to the general ledger.

RECOMMENDATIONS

32.9 Payments out of the fund should be authorized under the Civil Service Superannuation Act.

32.10 The cash book should be added, balanced, and posted to the general ledger on a monthly basis.

32.11 Accounts receivable and accounts payable detail should be maintained and reconciled to the general ledger balances monthly.

32.12 The contribution subledger should be reconciled to the general ledger balance on a regular basis.

DEPARTMENTAL RESPONSE

32.13 Our findings and recommendations are being considered by the Department.

IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

33. IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS

INTRODUCTION

33.1 Many of our audits include recommendations for improvement. We recognize other alternative courses of action can be taken. However, it is necessary to follow up on our recommendations to ensure that the underlying problems are receiving the attention they deserve. This section is a summary of past recommendations and the action which has been taken by those responsible for implementation.

33.2 Because our recommendations to Treasury Board are relatively few in number and deal with policy or government-wide issues of importance, we have been able to list most of them individually. Our audit reports to departments and agencies usually contain a large number of recommendations. These have been dealt with in summary fashion.

33.3 How quickly recommendations are acted upon depends on many factors. Sometimes action is postponed for valid reasons. In all cases, we intend to follow through until the problems identified have been dealt with in a satisfactory manner.

34. RECOMMENDATIONS TO TREASURY BOARD

34.1 Under the Financial Administration Act, Treasury Board has a number of responsibilities including preparation of the Budget Estimates, administration of the public service, and financial management.

34.2 Each year during the course of our audits, we encounter matters affecting these responsibilities that require decisions and direction from Treasury Board. This year was no exception and the observations and recommendations made to Treasury Board this year are included in the previous sections of this report.

34.3 A number of recommendations were made in previous years and we are satisfied that overall Treasury Board staff are making good efforts to deal with them.

34.4 The purpose of this section is to follow up on recommendations until they have been dealt with satisfactorily. Following are the outstanding recommendations.

Recommendations	Comments
A policy on fraud awareness and reporting. (Section 2, 31 March 1988)	A committee of senior officials has been established to develop a policy. Some information has been obtained from other provinces on existing policies and procedures. The committee will be considering the matter further at an early date.
A code of conduct for public servants. (Section 3, 31 March 1988)	A committee with representation from both government and the union is currently considering the matter. Draft guidelines have been prepared for review and discussion.
Program evaluation. (Section 4, 31 March 1988)	We are advised a program evaluation initiative is still being considered.
Requirement, timing and content of departmental annual reports. (Section 2, 31 March 1987)	A draft policy has been prepared but has not yet been approved by Executive Council.

Recommendations	Comments
Management and control of inventories. (Section 5, 31 March 1987)	Some preliminary work has been done, however sufficient progress is not being made on this important item. We were advised that insufficient staff resources is posing a problem in getting this project underway. Treasury Board staff intend to reactivate this project after the budget process is concluded.
Capital projects management system. (Section 8, 31 March 1987)	Treasury Board has approved a revised policy.
Management and control of professional services. (Section 9, 31 March 1987)	A draft policy has been prepared and the project will be completed when time permits.
Policy Manual (Section 6, 1980-81)	The Treasury Board Policy and Procedures Manual has been issued.

35. RECOMMENDATIONS FROM PREVIOUS REPORTS

35.1 This section provides an update on the significant recommendations made to departments and agencies in previous reports. It includes only those audits not done on a regular basis.

35.2 In each case we have contacted the appropriate department or agency and obtained information on the status of our recommendations. We limited our work to a review of this information, to ensure it addresses the issues raised. In most cases, the specifics of implementation will be verified on our next audit.

GOVERNMENT PURCHASING 1987-88

35.3 The Department provided a written response to the recommendations contained in our annual report.

35.4 The Department agreed with our main recommendations and we will follow up on implementation on our next audit.

MICROCOMPUTERS 1987-88

35.5 The Director of Computer Services has informed us of the action taken on our recommendations.

35.6 Computer Services Division will continue to emphasize that departments clearly document all benefits of microcomputer acquisitions. Staff will also monitor all microcomputer acquisitions and provide on-going education to departments on Treasury Board policies regarding acquisition.

35.7 Departments have been provided with forms to record computer usage and documentation standards for computer applications. Treasury Board policy requires all departments to follow the system development methodology produced by Computer Services Division.

35.8 Computer Services Division staff will increase efforts to educate departmental coordinators on the security implications of microcomputers. They are also preparing policies and procedures for offsite storage for the purposes of disaster recovery and back up.

35.9 We were informed that all software that violates licensing agreements has been removed from government microcomputers. Departments have been notified of the requirement for compliance with licensing agreements and the associated penalties.

35.10 We are satisfied with the action taken on our recommendations.

CROP INSURANCE AGENCY 1987-88

35.11 The general manager informed us of the status of our recommendations.

35.12 Provincial crop insurance legislation is being drafted to bring the provincial legislation in line with amendments to the Federal Crop Insurance Act and Regulations.

35.13 A consultant has been engaged to prepare an Information System Plan for the Agricultural Development Corporation, which will include both the Crop Insurance Agency and Land Development Corporation. A computerized management information system will be put in place.

35.14 The Agency expects that the federal-provincial agreement under the amended federal and provincial acts will be more specific relative to coverage levels, yields, and actuarial soundness.

35.15 We will continue to follow up on our recommendations.

WELFARE ASSISTANCE PROGRAM 1987-88

35.16 The Department provided us with information on the status of our recommendations.

35.17 Policies on documentation standards for initial and continuing eligibility are being assessed and a detailed study on signing authority was done by the Department.

35.18 The following issues are also being addressed: evaluation of mail-in reviews; standards for basic allowances; supervisory reviews; and financial overpayments.

35.19 Regional policies will now be approved by the Deputy Minister and/or Minister.

35.20 We are satisfied that progress is being made on our recommendations.

CROWN ATTORNEY'S DIVISION 1987-88

35.21 The Deputy Minister of Justice provided us with an update on our recommendations.

35.22 The staffing problem has been addressed. Two solicitor and two secretarial positions have been added.

35.23 Although specific action was not taken on our other recommendations, we were advised that the additional staff will assist the Division in dealing with our recommendations in the coming year. These include: making increased efforts to organize and schedule work, control and direct staff, and review staff performance; developing an operations manual; preparing and reporting management information to direct and control divisional activities; and

reporting divisional activities to the Legislature through the Department's annual report.

35.24 We will continue to follow up on these recommendations.

PEI HOUSING CORPORATION 1987-88

35.25 The Acting General Manager gave us an update on the status of our recommendations.

35.26 A study has been commissioned to examine the current and future housing needs and recommend possible new directions. The impact of any recommendations from this study on either new program initiatives or the role and mandate of the Corporation will be assessed at a later date. Similarly, our recommendation to prepare a strategic plan will be deferred until this study is completed.

35.27 An operational plan has not been documented, but management intends to take immediate action on this recommendation.

35.28 The staffing requirements and organization of the Corporation are also being addressed in the consulting study that is currently in process.

35.29 Improvements have been made in the documentation of preventative maintenance procedures.

35.30 At this time the Corporation does not see a need to develop a reporting system to monitor maintenance staff activities, and have not taken any action in this area.

35.31 The Corporation is in the process of establishing measurable performance goals for each program, which can then be compared to results achieved.

35.32 File documentation has been increased regarding land parcels acquired and/or considered for acquisition.

35.33 We will continue to monitor the status of our recommendations.

ADDICTION SERVICES OF PEI 1987-88

35.34 We were advised by the Director of Addiction Services that our recommendations will be dealt with after the ministerial evaluation review committee completes its report.

35.35 We will follow up on our recommendations this year.

DRUG COST ASSISTANCE PROGRAM 1987-88

35.36 We received information from the Department on the status of our recommendations.

35.37 System revisions were completed for the 1989-90 fiscal year to deal with most of the control weaknesses identified in the payment system.

35.38 Efforts are continuing to obtain a reliable source for verifying applicants' ages. Price monitoring is in place to ensure that pharmacies adhere to a policy of using usual and customary prices.

35.39 Some efforts have been made in the area of verifying telephone prescriptions, and monitoring variances between quantities prescribed and quantities dispensed.

35.40 We will continue to monitor action taken on our recommendations.

PEI LIQUOR CONTROL COMMISSION 1986-87

35.41 The Chairman of the Commission provided us with an update on outstanding recommendations.

35.42 Discussions with the Chairman indicate some attempt will be made this year to implement our recommendations on planning.

35.43 The Commission is still working on a study of staffing levels.

35.44 Inventory turnover rates are monitored and are improving. A marketing plan has not been developed, but some progress has been made in this area.

35.45 We will continue to follow up on our recommendations.

OFFICE OF THE AUDITOR GENERAL

36. OFFICE OF THE AUDITOR GENERAL

MANDATE

36.1 The Auditor General is a servant of the Legislative Assembly, independent of government and responsible for the audit of government administration within the provisions of the Audit Act.

36.2 The Auditor General's function is a vital part of the legislative framework that exists to hold the administration accountable for their stewardship of public funds.

RESPONSIBILITIES

36.3 The responsibilities of the Auditor General are set out in the Audit Act. The primary responsibility is the audit of the Public Accounts of the Province. This includes an objective examination of the accounts and records pertaining to the receipt and disbursement of public funds. In addition, the Auditor General is responsible for the audit of certain Crown corporations under statute as well as those not subject to financial audit by other auditors.

36.4 The Auditor General is also responsible to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose and is doing so economically and efficiently. The number of audits is limited by staff resources available, but on a cyclical basis, significant audit coverage can be achieved in most departments and agencies.

AUDIT PROCESS

36.5 Audits of the Province's Public Accounts and other financial statement audits are performed in accordance with the standards of the Canadian Institute of Chartered Accountants. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

36.6 Audit work on government departments and programs pertaining to the economic and efficient achievement of objectives is performed based on state of the art methodologies evolving primarily from the Canadian Comprehensive Auditing Foundation and other legislative audit offices.

36.7 We are always striving to make our audits more effective and efficient, while maintaining our professional standards of examination and reporting.

OFFICE ADMINISTRATION

36.8 Under the Audit Act, the Legislative Audit Committee, a standing committee of the Legislative Assembly is responsible for the administration of the office. The Committee consists of the Speaker, who is Chairman, the Leader of the Opposition, and the Minister of Finance.

36.9 The main functions of the Committee are clearly defined in the Act and ensure the office's operations and resources are determined independent from government. The Committee continues to work effectively in this role and is supportive of the office.

36.10 The annual budget for the office is submitted to this Committee for review. The Committee submits their recommended budget for the approval of the Lieutenant Governor-in-Council. It is then laid before the Legislative Assembly with the other estimates for final approval.

36.11 During the year our strategic overview was reviewed and updated. It outlines not only strategic issues, but also a three-year plan, and a detailed operational work plan for the current year.

36.12 The office is subject to a practice inspection on a periodic basis by the Institute of Chartered Accountants of Prince Edward Island, which is responsible for the regulation of public accounting. The inspection process is designed to protect the public interest by ensuring this office meets the standards required by the profession. The office was inspected by the Institute this year and the practice inspector's report was a positive one.

ORGANIZATION AND STAFFING

36.13 The office consists of the Auditor General, 3 Audit Directors, 14 audit positions and 1 administrative position. Three of these positions are filled by university graduates who are studying and articling to attain their chartered accountant designation. One position is filled by a university graduate, studying in the certified management accounting program.

36.14 With the mandate provided in the Audit Act, there is no limit to the amount of work this office could be doing. On the other hand any additional work requires more staff which entails additional cost.

36.15 It is not possible, or financially practical to have the Auditor General attempt to audit all of government each year. Therefore, it is my intention to perform sufficient audit work to adequately cover government programs on a cyclical basis in addition to my annual audits of Public Accounts and certain Crown Corporations.

36.16 The audit observations and recommendations made by this office continue to contribute to an improved government administration.

PROFESSIONAL ACTIVITIES

36.17 The office is a sustaining member of the Canadian Comprehensive Auditing Foundation. The Foundation performs research and provides professional development courses, publications, and conferences to further the development of comprehensive audit methodology.

36.18 The office participates in the Conference of Legislative Auditors held annually which includes provincial legislative auditors and the Auditor General of Canada.

36.19 Members of the office participate in various meetings and serve on several committees jointly with representatives from other provincial audit offices and the Auditor General of Canada.

36.20 I am currently an associate of the Public Sector Accounting and Auditing Committee. The Committee was established by the Canadian Institute of Chartered Accountants to consider and render pronouncements on matters of public sector accounting and auditing theory and practice.

36.21 It is a very active committee and to date statements have been issued on major topics such as: standards of financial statement presentation for governments; defining the government reporting entity; accounting for employee pension obligations in government financial statements; and value for money auditing standards.

36.22 An important professional relationship is also maintained with the Institute of Chartered Accountants of P.E.I., and the Canadian Institute of Chartered Accountants. Membership on various provincial and national committees helps ensure the office is kept abreast of important developments in the accounting profession.

SCHEDULES

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1988/89	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	TOTAL BUDGET	EXPENDITURES 1988/89	UNDER EXPENDITURES	EXPENDITURES 1987/88
AGRICULTURE	$19,501,000	$8,166,500	$ -	$18,000	$27,685,500	$27,144,149	$541,351	$16,633,286
LAND DEVELOPMENT CORPORATION	586,200	233,500	124,600	500	944,800	944,850	(50)	993,710
PEI GRAIN ELEVATORS CORPORATION	168,600	-	-	200	168,800	168,605	195	839,020
COMMUNITY & CULTURAL AFFAIRS	14,563,800	2,206,500	-	2,900	16,773,200	16,535,429	237,771	14,034,858
LAND USE COMMISSION	134,300	239,235	-	-	373,535	360,906	12,629	138,139
LABOUR	1,585,300	-	-	400	1,585,700	1,496,320	89,380	1,278,292
GENERAL EDUCATION	7,654,500	108,300	-	3,000	7,765,800	7,717,935	47,865	7,570,876
ELEMENTARY AND SECONDARY EDUCATION	92,146,900	346,000	-	-	92,492,900	92,458,475	34,425	84,697,202
POST SECONDARY EDUCATION	30,305,300	-	-	-	30,305,300	29,946,020	359,280	28,624,735
VOCATIONAL PROGRAMMING	3,971,600	-	-	-	3,971,600	3,971,600	-	3,866,900
TOURISM AND PARKS	7,820,100	316,600	-	45,600	8,182,300	8,171,026	11,274	7,382,868
EXECUTIVE COUNCIL	2,013,400	-	-	400	2,013,800	1,756,398	257,402	1,773,160
FINANCE	7,109,000	438,000	-	5,400	7,552,400	7,439,233	113,167	6,828,198
PEI LENDING AUTHORITY	1,249,000	20,500	-	-	1,269,500	1,138,988	130,512	1,249,013

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1988/89	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	TOTAL BUDGET	EXPENDITURES 1988/89	UNDER EXPENDITURES	EXPENDITURES 1987/88
INDUSTRY	$14,658,400	$1,738,100	$ -	$ 1,600	$ 16,398,100	$ 15,915,205	$ 482,895	$10,748,682
PEI DEVELOPMENT AGENCY	12,174,000	2,545,800	1,556,600	200	16,276,600	16,276,548	52	12,175,800
GEORGETOWN SHIPYARD INC.	-	-	-	-	-	-	-	532,810
HEALTH & SOCIAL SERVICES	87,462,700	374,900	136,500	-	87,974,100	87,973,961	139	81,603,748
ADDICTION SERVICES	3,249,000	17,500	-	19,100	3,285,600	3,276,803	8,797	3,140,000
HOSPITAL AND HEALTH SERVICES COMMISSION	101,577,400	2,100,000	872,100	644,900	105,194,400	105,194,388	12	97,400,131
ENERGY AND FORESTRY	9,926,800	-	-	20,000	9,946,800	9,098,140	848,660	10,804,741
PEI ENERGY CORPORATION	1,268,300	-	-	300	1,268,600	1,247,203	21,397	1,439,878
JUSTICE	16,575,700	146,000	-	29,400	16,751,100	15,296,311	1,454,789	14,032,262
PEI HOUSING CORPORATION	2,657,300	-	-	-	2,657,300	2,130,207	527,093	2,308,689
FISHERIES	2,719,000	52,500	-	4,800	2,776,300	2,525,880	250,420	2,598,141
LEGISLATIVE ASSEMBLY	1,836,400	171,300	-	3,700	2,011,400	1,970,674	40,726	2,056,016
TRANSPORTATION & PUBLIC WORKS	43,919,200	3,154,650	-	157,700	47,231,550	46,441,300	790,250	46,328,200
PEI CROWN BUILDING CORPORATION	910,000	-	152,600	-	1,062,600	1,062,501	99	922,384

ORDINARY EXPENDITURES
APPROPRIATIONS

OTHER ORDINARY EXPENDITURES	ORIGINAL APPROPRIATION ACT 1988/89	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	TOTAL BUDGET	EXPENDITURES 1988/89	UNDER EXPENDITURES	EXPENDITURES 1987/88
AUDITOR GENERAL	$ 878,600	$ -	$ -	$ -	$ 878,600	$ 832,872	$ 45,728	$ 794,921
CIVIL SERVICE COMMISSION	1,130,000	240,100	-	800	1,370,900	1,149,155	221,745	858,097
GENERAL GOVERNMENT	12,900,900	1,464,900	-	(959,500)	13,406,300	13,227,908	178,392	9,184,400
TREASURY BOARD	633,700	-	-	600	634,300	584,944	49,356	536,393
COUNCIL OF MARITIME PREMIERS	777,100	-	-	-	777,100	723,500	53,600	673,000
PEI FOOD TECHNOLOGY CENTRE	-	-	-	-	-	-	-	600,000
DEBT CHARGES	79,421,400	1,650,000	-	-	81,071,400	80,914,643	156,757	71,362,439
TOTALS	$583,484,900	$25,730,885	$2,842,400	$ -	$612,058,185	$605,092,077	$6,966,108	$546,010,989

CAPITAL EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1988/89	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS GENERAL	TOTAL BUDGET	EXPENDITURES 1988/89	UNDER EXPENDITURES	EXPENDITURES 1987/88
TRANSPORTATION & PUBLIC WORKS	$41,610,500	$185,000	$ -	$ -	$41,795,500	$40,917,845	$877,655	$35,295,694
ENERGY AND FORESTRY	-	-	-	-	-	-	-	80,313
TOURISM AND PARKS	418,800	-	-	-	418,800	418,792	8	321,200
AGRICULTURE	-	-	-	-	-	-	-	175,000
FISHERIES	-	-	-	-	-	-	-	154,990
TOTALS	$42,029,300	$185,000	$ -	$ -	$42,214,300	$41,336,637	$877,663	$36,027,197

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	DEPARTMENT OF AGRICULTURE		
624/88	MARKETING AND EXTENSION		$2,235,300
	Hog Stabilization - Grant	$2,148,000	
	Hog Stabilization - Interest	87,300	
61/89	MARKETING AND EXTENSION		5,931,200
	Hog Stabilization Fund - Loan Guarantee Write-off		
	TOTAL		**$8,166,500**
	LAND DEVELOPMENT CORPORATION		
40/89	ADMINISTRATION		$ 34,000
	Administration	$ 4,000	
	Professional and Contract Services	11,600	
	Salaries	18,000	
	Travel and Training	400	
	LAND ACQUISITION		2,000
	Professional and Contract Services		
	PROPERTY AND INTEREST COSTS		197,500
	Debt		
435/89	PROPERTY AND INTEREST COSTS		124,600
	Debt		
	TOTAL		**$ 358,100**
	DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS		
298/88	ENVIRONMENTAL MANAGEMENT		$ 35,700
	Administration - Salaries		
299/88	CULTURAL AFFAIRS		16,600
	Public Archives - Salaries		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
385/88	COMMUNITY SERVICES		$ 784,100
	Joint Emergency Planning Program - Grants		
	Training For Fire Service Personnel	$ 27,100	
	Integrated Radio Trunking System	700,000	
	Emergency Generator	23,500	
	Emergency Response Vehicle	33,500	
469/88	CULTURAL AFFAIRS		
	Cultural Program Development		78,000
	Administration	$ 3,000	
	Materials, Supplies and Services	22,900	
	Professional Services	10,000	
	Travel and Training	6,000	
	Grants	36,100	
	Acadian Heritage Development		34,000
	Materials, Supplies and Services	$ 5,000	
	Professional Services	25,000	
	Travel and Training	4,000	
	Evangeline Cultural Study		16,000
	Professional Services	$ 15,000	
	Travel and Training	1,000	
510/88	ENVIRONMENTAL MANAGEMENT		
	Wetland Management		10,600
	Materials, Supplies and Services	$ 3,700	
	Salaries	6,900	
	Cooperative Watershed Management		17,000
	Equipment	$ 300	
	Materials, Supplies and Services	1,700	
	Salaries	7,000	
	Travel and Training	3,400	
	Project Grants	4,600	
539/88	COMMUNITY SERVICES		22,500
	Joint Emergency Planning Program - Emergency Generator		
540/88	ENVIRONMENTAL MANAGEMENT		
	Marine Environment		11,000
	Materials, Supplies and Services	$ 1,000	
	Salaries	8,000	
	Travel and Training	2,000	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
540/88	Community Services Laboratory Salaries		$ 4,000
541/88	ENVIRONMENTAL MANAGEMENT Underground Petroleum Storage Tank Program		30,000
	Equipment	$ 5,000	
	Materials, Supplies and Services	1,000	
	Salaries	20,000	
	Travel and Training	4,000	
600/88	ENVIRONMENTAL MANAGEMENT Utility Operations - New Water System in Crossroads		220,000
63/89	CULTURAL AFFAIRS - ADMINISTRATION		115,000
	Fathers of Confederation Memorial	$100,000	
	Confederation Center Bilingualization	15,000	
	COMMUNITY SERVICES - ADMINISTRATION		748,000
	Grant - 1991 Canada Winter Games	$733,000	
	Joint Emergency Planning Project	15,000	
	ENVIRONMENTAL MANAGEMENT		64,000
	Utility Operations	$ 55,000	
	Fish and Wildlife		
	Administration	500	
	Material, Supplies and Services	400	
	Salaries	7,100	
	Travel and Training	1,000	
	TOTAL		$2,206,500
	LAND USE COMMISSION		
355/88	ADMINISTRATION		$ 115,000
	Administration	$ 15,000	
	Materials and Supplies	2,000	
	Professional Services	25,000	
	Salaries	64,000	
	Travel and Training	9,000	
	Additional Costs of Major Hearings		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
648/88	ADMINISTRATION		$ 87,535
	Administration	$ 735	
	Materials and Supplies	1,100	
	Professional Services	23,000	
	Salaries	50,400	
	Travel and Training	12,300	
	Additional Costs of Major Hearings		
704/88	EQUIPMENT		4,000
	Audio Recording Equipment		
67/89	ADMINISTRATION		32,700
	Administration	$ 4,000	
	Professional and Contract Services	4,000	
	Salaries	19,100	
	Travel and Training	5,600	
	Additional Costs to Continue Hearings		
	TOTAL		$ 239,235
	DEPARTMENT OF EDUCATION		
62/89	GENERAL EDUCATION - PROVINCIAL LIBRARY		$ 8,300
	Materials, Supplies and Services		
	GENERAL EDUCATION - EDUCATIONAL SERVICES		100,000
	Media Services		
	Computer Equipment for High Schools		
	TOTAL		$ 108,300
62/89	REGIONAL SCHOOL UNITS - FOUNDATION PROGRAM		$ 346,000
	Salaries		
	Additional staffing due to increased enrollment		
	TOTAL		$ 346,000

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
	DEPARTMENT OF TOURISM AND PARKS		
471/88	DEPARTMENTAL MANAGEMENT		$ 20,000
	Grant to the Tourism Industry Association		
649/88	TOURISM DEVELOPMENT - PRODUCT DEVELOPMENT		18,800
	Equipment	$ 1,000	
	Materials and Supplies	10,000	
	Salaries	5,800	
	Travel and Training	2,000	
	Promotion on Acadian Culture and Heritage project		
703/88	TOURISM MARKETING - PUBLICATIONS		65,000
	Increased costs of 1989 Visitors Guide		
19/89	DEPARTMENTAL MANAGEMENT - ADMINISTRATION		7,000
	Materials, Supplies and Services		
	Ottawa Winterlude Project		
38/89	DEPARTMENTAL MANAGEMENT - 125TH ANNIVERSARY CELEBRATIONS		75,000
	Administration	$ 5,000	
	Equipment	5,000	
	Materials, Supplies and Services	35,000	
	Professional and Contract Services	25,000	
	Travel and Training	5,000	
	TOURISM MARKETING - ADVERTISING		26,000
	Materials, Supplies and Services		
	TOURISM MARKETING - SALES DEVELOPMENT		37,500
	Grant - Acadian Promotional Tours		
	TOURISM DEVELOPMENT - PRODUCT DEVELOPMENT		5,000
	Administration	$ 1,500	
	Materials, Supplies and Services	1,000	
	Salaries	2,500	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
38/89	TOURISM DEVELOPMENT - PRODUCT DEVELOPMENT		$ 62,300
	Grant		
	Promotion of Official Languages Agreement		
	TOTAL		**$ 316,600**
	DEPARTMENT OF FINANCE		
353/88	REAL PROPERTY RECORDS DIVISION - Amalgamation of the Registry, Mapping and Assessment Divisions		
	Administration and Operations		$ 52,700
	Administration	$ 38,900	
	Equipment	4,700	
	Materials and Supplies	4,100	
	Professional Services	5,000	
	Assessment		6,900
	Materials and Supplies	$ 3,000	
	Travel and Training	3,900	
	Registry and Mapping		378,400
	Equipment	$ 6,800	
	Materials and Supplies	5,200	
	Salaries	366,400	
	TOTAL		**$ 438,000**
	PEI LENDING AUTHORITY		
717/88	ADMINISTRATION		$ 20,500
	Equipment	$ 16,200	
	Travel and Training	4,300	
	Computer equipment and training		
	TOTAL		**$ 20,500**
	DEPARTMENT OF INDUSTRY		
342/88	EMPLOYMENT DEVELOPMENT - GRANTS		$100,000
	Jobs for Youth - Private Sector	$ 50,000	
	Jobs for Youth - Non-Profit Sector	50,000	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
705/88	COMMUNITY ECONOMIC DEVELOPMENT		
	OFFICIAL LANGUAGES AGREEMENT		
	French Secretariat		$ 116,900
	Administration	$ 2,000	
	Equipment	11,200	
	Professional Services	40,000	
	Salaries	53,300	
	Travel and Training	10,400	
	Acadian Communities Advisory Committee		
	Grant		8,000
	East Prince Regional Services Centre		17,400
	Equipment	$ 5,000	
	Salaries	12,400	
	Evangeline Regional Services Centre		22,000
	Administration	$ 1,000	
	Salaries	17,000	
	Travel and Training	2,000	
	Community Advisory Board	2,000	
37/89	SMALL BUSINESS DEVELOPMENT		1,347,800
	Strategic Opportunities		
	Grants - (E.R.D.A. Projects)		
66/89	COMMUNITY ECONOMIC DEVELOPMENT		126,000
	Grant - Atlantic Region Acadian Games		
	TOTAL		$1,738,100
	PEI DEVELOPMENT AGENCY		
1/89	HANDCRAFT AND CULTURAL ASSISTANCE		$ 20,000
	Salaries	$ 8,400	
	Travel and Training	1,600	
	Grants	10,000	
	Prince County Craft Development Pilot Project		
60/89	PEI FOOD TECHNOLOGY CENTRE - GRANT		370,000
	MEAT PROCESSING INDUSTRY ASSISTANCE		515,500
	Garden Province Meats deficiency payments		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
60/89	PROVISION FOR FUTURE LOSSES		$1,612,000
	ADMINISTRATION Professional and Contract Services		28,300
434/89	PROVISION FOR FUTURE LOSSES		1,556,600
	TOTAL		$4,102,400
	DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
601/88	JOB CREATION AND PLACEMENT EMPLOYMENT ENHANCEMENT DIVERSION FUND Salaries		$ 224,100
	Social Assistance Recipients Agreement		
68/89	PHARMACY DIVISION Pharmacy Drug Account		100,000
	HILLSBOROUGH HOSPITAL Equipment - New Passenger Bus		50,800
415/89	HOME CARE AND SUPPORT DIVISION		136,500
	Region 1 - O'Leary	$ 22,600	
	Region 2 - Summerside	13,500	
	Region 3 - Charlottetown	10,500	
	Region 4 - Montague	53,000	
	Region 5 - Souris	36,900	
	Salary overexpenditures		
	TOTAL		$ 511,400
	HOSPITAL AND HEALTH SERVICES COMMISSION		
42/89	HOSPITAL SERVICES - GRANT		$1,600,000
	In-Province	$600,000	
	Negotiated salary increases not budgeted		
	Out-of-Province	1,000,000	
	Expenditures exceeded original budget		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
42/89	MEDICAL SERVICES - GRANT		$ 500,000
	In-Province	$370,000	
	The addition of new physicians		
	Out-of-Province	130,000	
	Expenditures exceeded original budget		
436/89	HOSPITAL SERVICES - GRANTS		861,400
	RED CROSS PROGRAM		10,700
	TOTAL		$2,972,100
	ADDICTION SERVICES		
69/89	QUEENS COUNTY		$ 6,700
	Detoxification - Salaries	$ 5,300	
	Short Term Care - Salaries	1,400	
	PRINCE COUNTY		5,400
	Detoxification - Salaries	$ 4,500	
	Short Term Care - Salaries	900	
	KINGS COUNTY		5,400
	Detoxification - Salaries	$ 4,300	
	Rehabilitation - Salaries	400	
	Short Term Care - Salaries	700	
	TOTAL		$ 17,500
	DEPARTMENT OF JUSTICE		
354/88	CORRECTIONAL SERVICES		
	VICTIMS ASSISTANCE PROGRAM		$ 108,500
	Administration	$ 8,500	
	Equipment	13,000	
	Materials, Supplies and Services	2,500	
	Salaries	49,300	
	Travel and Training	5,200	
	Grants	30,000	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
602/88	ADMINISTRATION		$ 37,500
	Equipment	$ 10,000	
	Salaries	27,500	
	Increased demand for legal services		
	TOTAL		**$ 146,000**
	DEPARTMENT OF FISHERIES		
470/88	ADMINISTRATION - PROFESSIONAL SERVICES		$ 52,500
	E.R.D.A. Evaluation and Salmonid Strategy		
	TOTAL		**$ 52,500**
	LEGISLATIVE ASSEMBLY		
70/89	LEGISLATIVE SERVICES		$ 57,300
	Administration	$ 6,000	
	Materials, Supplies and Services	7,000	
	Salaries	42,000	
	Travel and Training	2,300	
	MEMBERS		67,000
	Salaries	$ 48,700	
	Travel and Training	18,300	
	ELECTIONS		47,000
	Professional and Contract Services	$ 39,000	
	Equipment	8,000	
	TOTAL		**$ 171,300**
	DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS		
650/88	DIRECT BUILDINGS MAINTENANCE		$ 180,000
	Beach Grove Home - New carpet		
39/89	TRANSPORTATION BRANCH		
	Professional Services and Contracts		100,000
	Rail Abandonment Intervention		

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
65/89	HIGHWAYS MAINTENANCE BRANCH		$ 261,900
	Pavement Maintenance - Kings		
	Materials, Supplies and Services	$ 13,900	
	Road Maintenance - Queens		
	Salaries	15,300	
	Road Side Maintenance and Grooming		
	Prince - Salaries	11,600	
	Queens - Salaries	3,600	
	Snow Removal		
	Materials, Supplies and Services	66,500	
	Salaries	32,200	
	Sanding and Salting		
	Materials, Supplies and Service	118,800	
	MECHANICAL BRANCH - GARAGE OPERATIONS		846,000
	Direct, Charlottetown		
	Materials, Supplies and Services	$149,400	
	Salaries	91,800	
	Travel and Training	10,500	
	Indirect, Charlottetown		
	Administration	15,700	
	Equipment	200,000	
	Materials, Supplies and Services	33,200	
	Professional and Contract Services	21,400	
	Salaries	43,200	
	Travel and Training	2,100	
	Direct, Summerside		
	Materials, Supplies and Services	106,200	
	Salaries	50,100	
	Travel and Training	4,000	
	Indirect, Summerside		
	Administration	11,400	
	Materials, Supplies and Services	15,100	
	Salaries	22,200	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
65/89	Operators, Prince		
	Salaries	$ 5,400	
	Operators, Queens		
	Salaries	60,600	
	Operators, Kings		
	Salaries	3,700	
	TRAFFIC ENGINEERING		$ 34,100
	Highway Signage - Salaries	$ 13,700	
	Traffic Operations		
	Materials, Supplies and Services	20,400	
	SERVICES BRANCH - AUDIO VISUAL CENTRE		7,700
	Materials, Supplies and Services	$ 3,300	
	Salaries	2,400	
	Travel and Training	2,000	
	SERVICES BRANCH - POSTAL SERVICES		78,600
	Administration	$ 58,600	
	Equipment	20,000	
	SERVICES BRANCH - INFORMATION SERVICES		21,300
	Administration	$ 14,300	
	Equipment	7,000	
	SERVICES BRANCH - PRINTING SERVICES		142,000
	Equipment	$ 23,000	
	Materials, Supplies and Services	93,000	
	Salaries	26,000	
271/89	HIGHWAY MAINTENANCE BRANCH		1,043,550
	Snow Removal		
	Materials, Supplies and Services	$166,550	
	Professional and Contract Services	240,400	
	Salaries	152,400	
	Sanding and Salting		
	Materials, Supplies and Services	345,600	
	Salaries	138,600	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
271/89	MECHANICAL BRANCH - GARAGE OPERATIONS Materials, Supplies and Services		$ 439,500
	TOTAL		**$3,154,650**
	PEI CROWN BUILDINGS CORPORATION		
433/89	ATLANTIC VETERINARY COLLEGE PROJECT Debt		$ 152,600
	TOTAL		**$ 152,600**
	GENERAL GOVERNMENT		
651/88	ROYAL COMMISSION ON LAND OWNERSHIP, LAND USE AND THE LANDSCAPE Grant		$ 178,000
716/88	EMPLOYEE BENEFITS Salaries		913,700
41/89	ROYAL COMMISSION ON LAND OWNERSHIP, LAND USE AND THE LANDSCAPE Grant		40,000
59/89	EMPLOYEE BENEFITS Salaries		260,200
	1989 ROYAL VISIT		5,000
	Salaries	$ 2,500	
	Travel and Training	2,500	
	CHARLOTTETOWN DRIVING PARK - Grant		68,000
	TOTAL		**$1,464,900**
	CIVIL SERVICE COMMISSION		
736/88	ADMINISTRATION		$ 240,100
	Administration	$ 14,500	
	Equipment	25,500	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		
736/88	Materials, Supplies and Services	$ 23,500	
	Salaries	106,600	
	Travel and Training	70,000	
	TOTAL		$ 240,100
	DEBT CHARGES		
88/89	INTEREST		$1,350,000
	SINKING FUND PROVISION		300,000
	TOTAL		$1,650,000
	DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS - CAPITAL		
64/89	CAPITAL - LAND PURCHASE Waterfowl Habitat Land Acquisition		$ 185,000
	TOTAL		$ 185,000